



UCLA Luskin School *of* Public Affairs
Lewis Center

California Policy Options 2015

2015

California

Policy

Options

Edited by Daniel J.B. Mitchell

UCLA Luskin School *of* Public Affairs

Lewis Center

California Policy Options 2015
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Preface

Since its 1997 inaugural edition, *California Policy Options* has provided a timely collection of research and policy recommendations on issues and challenges facing California. The annual publication, produced by the UCLA Luskin School of Public Affairs and the UCLA Ralph and Goldy Lewis Center, advances research solutions for California's urban and regional challenges. These range from the state economy, leadership and voter issues, to education, transportation, housing and the environment.

Once again, Professor Daniel J.B. Mitchell has collected and edited a new list of California-focused articles by Luskin and Lewis Center center-affiliated UCLA faculty and graduate students, and has provided his annual analysis of the state's budget. The current volume and past editions have become important reading for our undergraduate class on California policy issues taught each winter quarter by Professors Mitchell and Michael Dukakis, now in his 20th year at Luskin. It is distributed to libraries and made available on School and academic websites for researchers, journalists, and citizens.

California Policy Options exemplifies many of the values and goals of the UCLA Luskin School of Public Affairs and the Lewis Center: working across academic boundaries, addressing a wide range of pressing issues, and providing empirical analysis of the state's public policy problems from both the macro and micro view.

Franklin D. Gilliam, Jr.

Dean
UCLA Luskin School of Public Affairs

Introduction

The year 2014, a gubernatorial election year, might have been an exciting one. But because there was not much of a race at the top of the ticket, much of the media commentary noted the low voter turnout and interest. However, despite public inattention to ballot issues and candidates, California will face a variety of important issues going into 2015. In this edition of *California Policy Options*, we take up the key issues of housing costs, transportation, income inequality, the general economic outlook, the state budget, the environment, and education. Election year or not, these issues remain key to California's future.

Peter Norlander, in his chapter on "The New Bum Blockade: California Housing Policy & Migration Since 2000," finds that the lack of affordable housing, generally in the coastal areas of the state, leads to an outmigration of poorer individuals. Those who are priced out of more desirable coastal areas tend either to leave California entirely or to settle in lower-cost (inland) areas. In theory, a wholesale relaxation of constraints on development could mitigate this tendency but so far such a policy shift seems unlikely. As a result, overall population growth in California may turn out to be slower than commonly projected.

After World War II, the transportation needs of California's then-rapidly growing population were focused on freeway construction rather than mass transit. Freeways were seen as a modern successor to older means of transit especially in southern California. A rail system, consisting mainly of surface streetcars that were becoming entangled in local traffic, had fallen out of public favor and was abandoned. Now, however, a new rail system, consisting partly of subways and partly of "light rail," is being created. Ethan Elkind in "The Rail Revolution in Los Angeles: Past, Present and Future" traces the history of the new rail program. Worsening traffic congestion, he thinks, will continue to push a shift toward rail.

William Yu, in "A Tale of Two Los Angeleses," finds that the Los Angeles region is split between some very prosperous areas and others in poverty. It appears that a major factor in this split is "human capital" as measured by years of schooling. Areas that are high in human capital are also zones of prosperity. The possession of human capital seems to be self-reinforcing. More educated parents tend to have more educated children. If policy is to address income inequality in the region, Yu believes, investment in human capital in the low-income areas is crucial.

Usually, questions of food insecurity don't encompass the *sources* of food available. Quantity rather than quality is often the focus. However, there are programs that encourage subsidized purchase of fresh foods from farmers' markets by low-income individuals. In a chapter on "Market Match: Fresh Nutrition Incentives for Older Adults in Los Angeles County," Alison Muckle, Andrea Jones, and Martha Washo find that low-income seniors welcome such programs. Often, however,

they are unaware of the available subsidies. In addition, availability is limited by funds that can be used for subsidies. The authors offer suggestions for program expansion and, importantly, evaluation.

California's economic outlook is strongly tied to national trends. And as this volume was being developed, no national recession was on the horizon and by some measures the state was growing faster than the national economy. Jordan G. Levine and Christopher Thornberg in their chapter on "California's Economic Prospects: What's Wrong and What's Right" find a mix of economic indicators. California's unemployment rate has been falling, for example, a Good Thing. But a variety of structural issues remain. Income inequality has risen. The authors believe that reform of CEQA (the California Environmental Quality Act) is needed if more affordable housing is to be provided. Otherwise, considerable regulatory delays will inhibit the necessary construction.

A healthy state economy tends to foster a healthy state budget. Increasing economic activity generates additional tax revenue. Governor Jerry Brown, in addition, dealt with the state's budget crisis he inherited from his predecessor, Arnold Schwarzenegger, by persuading voters to enact temporary tax increases through a ballot initiative. Daniel J.B. Mitchell in his chapter entitled "The Adult Budget Supervisor Tackles the 2014-15 California State Budget" notes that even with an official "rainy day" fund (now also added by state voters), California's budget situation is more precarious than many perceive it to be. Revenue is highly volatile and dependent on financial market ups and downs as well as general economic growth. Indeed, the governor's official budget projections that were part of the budget passed in June 2014, forecast a decline in net reserves for 2014-15. The budget's revenue projections may well turn out to be conservative – net reserves may not fall as forecast – but some future economic downturn could lead to another state fiscal crisis.

Los Angeles has been a pioneer in policies aimed at pursuing a "green" energy system. While part of the policy is focused on electrical generation, conservation provides an avenue for greening the use of energy. Saira Gandhi, Yuka Matsukawa, Amanda Morrall in their chapter on "An Energy Disclosure Policy for the City of Los Angeles" suggest a good first step would be to develop data on energy usage by larger buildings. Mandating the collection of such information and making it available, they suggest, would encourage more efficient energy usage.

Our final chapter deals with segregation in the schools, not the formal legal type but *de facto* segregation that results from residential and enrollment patterns. Gary Orfield, Jongyeon Ee, Jenn Ayscue in "Deepening Educational Segregation in a Policy Vacuum" find that schools in California are often highly segregated by poverty level and ethnicity. Although "separate but equal" notions have long since been abandoned when it comes to the mandated segregation that once existed in California, re-segregation in the state has developed. There are remedies, such as providing transportation opportunities for parent who want to take advantage of charter schools outside their neighborhoods. Dual language immersion schools can also attract diversity in student enrollment. However, California school authorities need first to recognize the problem of re-segregation otherwise remedies will not be pursued.

Daniel J.B. Mitchell

CHAPTER 1

The New Bum Blockade: California Housing Policy & Migration Since 2000

Peter Norlander

Peter Norlander completed his Ph.D. at the UCLA Anderson School of Management.

This chapter is based on a report prepared for Public Policy 233, winter 2014.

At the height of the Great Depression of the 1930s, Los Angeles City police erected border checkpoints to prevent the arrival of poorer Americans who had been lured by tales of work and prosperity.¹ Those who could not demonstrate “viable means of support” were removed from the state. Known as the “bum blockade,” the border checkpoints were challenged in court and quickly removed. While it may appear to be far removed from the past, housing and low-income advocates have argued that the cost of living and housing policies in California has kept lower income Americans out of the state and led poorer native Californians to leave. These allegations have raised the possibility of a silent, invisible blockade today: if housing policies that restrict growth have effectively closed large parts of California to lower-income workers and migrants, then a new, silent “bum blockade” exists with implications for California’s population, economy, and the environment.

Quantitative research can aid in the assessment of whether poorer Californians are leaving the state and being forced to migrate away from the wealthier regions. This chapter uses data from several sources to test whether population changes are responsive to changes in housing affordability, a supposition we can term the “housing hypothesis.” First, I provide a background discussion of California’s population growth and attitudes toward development and housing policy. Second, I present an analysis of migration patterns from 2007-2011 to test whether or not an invisible blockade exists. Third, I explore housing patterns since 2000 to see if the housing hypothesis has evidentiary support. Finally, I report on attitudes toward development and suggest that while it is unlikely to happen, greater population growth in California could reduce greenhouse gas emissions, mitigate income inequality through enhanced economic opportunity, and increase economic growth overall.

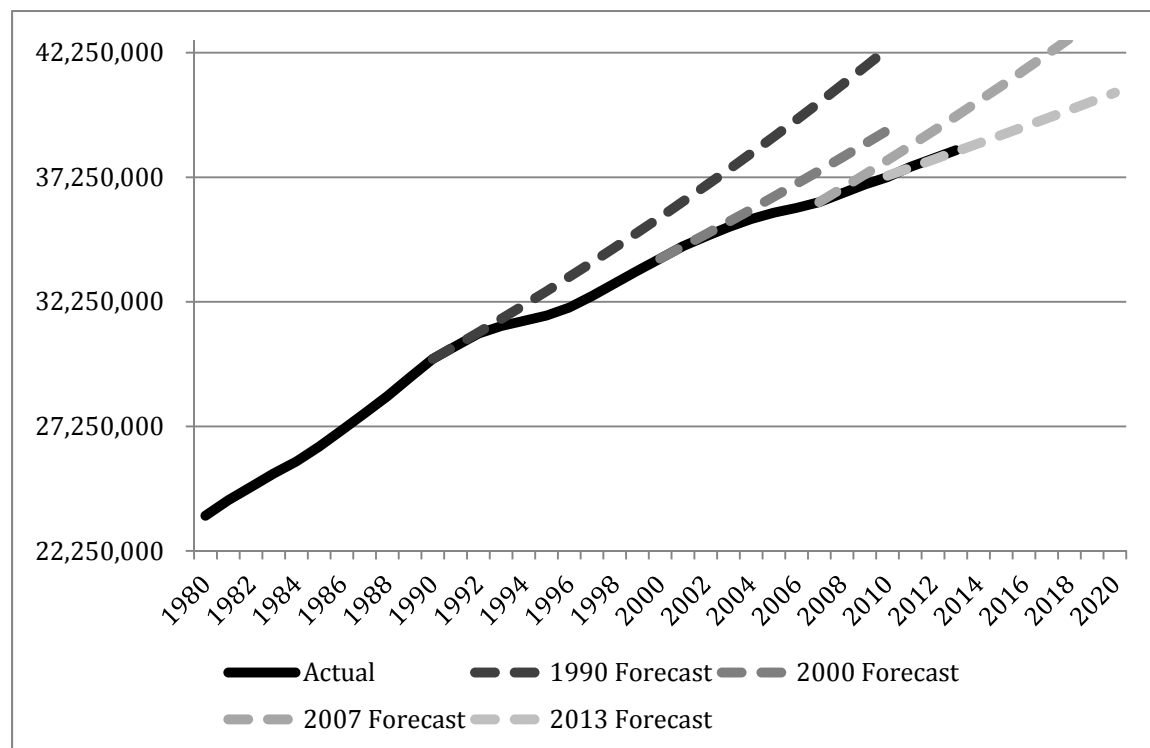
Hitting the Ceiling: Population Patterns in California

Already the most populous state in the U.S. with a population of 37.3 million as of 2010, California is forecast to increase its numbers to 52.7 million by 2060.² At that rate, California would continue to be the most populous state in the nation and account for approximately 12% of the U.S. population. But the prediction that California’s population growth will maintain pace deserves scrutiny. Forecasts are uncertain and can fluctuate wildly.³ One reason for

skepticism is that the projections have been wrong before: California was projected to grow by 2 million more people than it actually did from 2000-2010, and by 2.3 million more than it did from 1990-2000.⁴

A 2000 update of California's Statewide Housing Plan titled "Raising the Roof," predicted that "barring some unforeseen natural or economic calamity, California's population will likely grow from 34 million people in 1999 to just under 40 million in 2010."⁵ Given that the 1990 forecast projected California's 2010 population at 42.4 million, while the 2000 forecast estimated 39.1 million, the ultimate number of missing Californians in 2010 was 2-5 million short of these earlier estimates. Figure 1 shows the actual population alongside the earlier projections.

Figure 1: California Population 1980-2020: Estimates and Projections

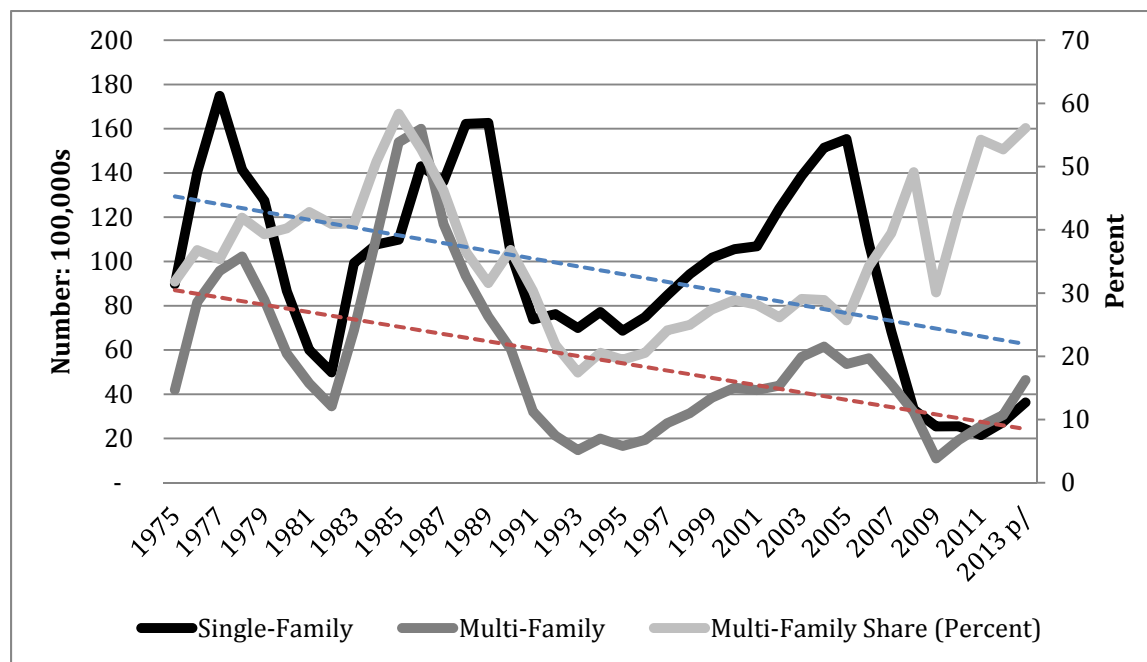


For much of the 20th Century, California's growth rate was faster than the rest of the U.S., but it has stabilized since 1993. With the exception of the dot-com boom in the late 1990s, net domestic migration between California and the rest of the U.S. has been negative, with only births and foreign immigration restoring California to equity with the rest of the country.⁶

Housing Construction Since 1975

Estimates are that California needs 250,000 new housing units yearly just to keep up with population growth.⁷ As can be seen in Figure 2, there has been a secular downward trend in housing construction since the 1970s for both single and multi-family housing. Of particular concern is the lack of construction of multi-family housing, which is often associated with affordable housing (although this is not always the case).⁸ The aftermath of the Great Recession has restored multi-family housing to over 50% of construction—the highest proportion it has been at since 1985 – but this encouraging sign is tempered by the fact that housing construction remains far below what it needs to keep up with population growth.

Figure 2: Single-Family and Multi-Family Residential Construction in CA



As seen in Figure 2, multi-family housing was less than 30% of new housing permits issued from 1993-2006, while multi-family housing permits after 1990 remained below 50,000 for much of the period – a third of the 150,000 multi-family units reached at the peak of the late 1980s boom.⁹ The reason for the shortfall in housing is complex and due to many factors. While not intended to be conclusive, the following section briefly describes the history of California housing policy and some of the major obstacles to development that exist today.

Policy Background

Throughout much of the 20th Century, Jim and Juan Crow housing policies in California included restrictive covenants that prohibited minority groups from moving into many communities. These restrictions lasted until California's legislature made housing discrimination illegal in 1963 by passing the Rumford Housing Law, although voters made discrimination legal again by a 65% supermajority in a statewide ballot initiative vote (Prop 14) held in 1964. Courts restored the original law banning discrimination, but popular opinion regarding affordable housing may not have changed as much in the intervening 60 years as civil rights progress in other areas has.

Along with a decline in overt racism and a growing concern with overpopulation since the 1960s, facially neutral policies in California were implemented that had the effect of reducing the ability of people to relocate into areas of increased economic opportunity. Residents have questioned the sustainability of further growth.¹⁰ A history of environmental degradation of air, water, and land, and automobile dependence continues to make residents wary of further efforts at development. As a result, localities since 1960 have introduced restrictive zoning that limits where multi-family housing can be constructed.

Expensive and lengthy environmental reviews, which predominantly focus on local impact such as traffic, rather than global impact (discussed later), are required for new construction. These deter projects from being built, and have the effect of excluding prospective in-migration.¹¹ Contemporary opponents of multi-family housing cite increased traffic congestion, lower property values, and the arrival of poorer children in the public schools who will divert resources from the children of incumbents.¹²

When proposals for housing developments do appear, they often attract significant NIMBY/"Not-In-My-Backyard" complaints that lead housing developers to reduce or withdraw their plans.¹³ Before assessing whether the cost-of-living and housing costs in particular have an effect on California's population changes, the following section tests for an invisible blockade by examining the migration patterns of Californians with respect to their wages and incomes, as well as population growth within different regions of the state.

Population Patterns

One way to test for an invisible blockade is to look for direct evidence that poorer Californians are indeed leaving at greater rates than middle and upper class residents. This follow sections present an analysis of migration and other demographic patterns using a variety of data from the U.S. Census and the American Community Survey (ACS) data for years 2000, 2006, and 2011.¹⁴ I also utilize the 2007-2011-to-county migration files from the U.S. Census,¹⁵ which provide a more complete picture of migration given that the ACS and Census data aggregate the location of residence one year ago to the “Super PUMA” level (where PUMA = Public Use Microdata Area).¹⁶

Table 1 provides data on county migration patterns between 2007 and 2011 by annual personal income for the working age population of counties with more than 600,000 people. These data show California migration by income level, and offer quantitative support to anecdotal reports that poorer Californians are leaving. Columns 7-9 present the percentage outward flow, inward flow, and net flow between California counties and the rest of the U.S. This shows that .5 percent of the poorest Californians left in the five years between 2007 and 2011. Anecdotal reports (and even some purportedly data-driven reports) suggest wealthy Californians are fleeing the state for other areas of the country in response to high taxation.¹⁷ These reports are mistaken; net migration above \$65,000 was negative by only .03 percent. Meanwhile, for individuals earning between \$25,000 and \$65,000, net out migration was .22 percent.

Further support that poorer Californians are leaving lies in the internal migration figures. Among those who move within state, columns 10-12 present the percentage outward, inward, and net flow between California counties. These data also show that lower income residents are moving much more within California than higher income residents: 3.6% of those earning less than \$25,000 moved, while only 2.3% of those earning more than \$65,000 did. Lower cost Kern, San Bernardino and Riverside counties are all experiencing net in-migration within California, especially at lower incomes. These data also show population declines at all income levels in Alameda, Los Angeles, San Francisco, Santa Clara, and Ventura counties.¹⁸

Uneven Growth in CA

The data presented in Table 2 show that the median wage of residents who are leaving California is below that of those who remain, and that those who move within California are just slightly better off than those who leave the state altogether, and among those movers, they typically move to lower income regions of the state. This migration suggests a change in composition of the labor force in California. Lower income workers with lower educations are being replaced to some extent by higher income and higher educated workers from out of state, and from out of the country.

The next step is to explore why this is the case, and specifically, the housing hypothesis. This examination involves shifting from an analysis of migration to an analysis of residential population. One of the limitations of analysis that focuses on migration is the level of geographical information. County-level and Super PUMA geographies that have migration data are too large to show movements beneath the surface and variety within each of these geographical constructs. Too much detail, however, can produce more confusion than clarity. If county-level and super PUMA analyses are too large, and 233 PUMAs are too small, then the following analysis is an attempt to arrive at the Goldilocks zone.

I performed a factor analysis of California's 233 PUMAs to allow for broader generalizations and settled on four clusters to enable a simpler and higher level presentation of the central findings of this chapter.¹⁹ Factors used to create the clusters include all of the demographic variables presented in the analyses below. The four factor solution divides California PUMAs into the following distinct areas depicted in images at the end of this paper in increasingly lighter shades: 1) the Urban Core, which includes much of Los Angeles, as well as Oakland, East San Jose, and Richmond, 2) an area of prosperous "Silicon Cities" that can be seen in the San Francisco Bay Area and Santa Barbara, but also in a belt of wealthy areas in Los Angeles that stretches from Santa Monica to Beverly Hills, 3) a Commuter Belt that rings the major metropolitan areas, and 4) an Outer Belt that covers the vast majority of the land mass of the state and is depicted in the lightest shade in Figure 3. Throughout the rest of the chapter, I refer to these specific areas by referring to Urban, Silicon, Commuter, or Outer California. Because

the data come from years 2000, 2006 and 2011, they can highlight changes in patterns from the start of the 21st century and the dot-com bust to the peak of the housing boom, and from there to developments as recent as 2011.

Demographic data

Tables 3 and 4 present descriptive data on these four regions of California. Outer and Commuter California are the most populous regions of the state: each has approximately a third of the state's total population, while Urban and Silicon California together comprise the final third. Home ownership is in the 58-67 percent range in Outer and Commuter California for years 2000, 2006, and 2011, but only 40-45% in the Silicon and Urban regions. Immigrants are approximately 40% of the population in the urban areas of the state, and approximately 34% in the Silicon areas, 25% in Commuter and 20% in Outer California. Urban California also has a higher percentage of Hispanic and Black residents, while Silicon and Commuter areas have a higher percentage of Asians.

Population Changes

Table 3 shows changes in population and wages from 2000-2011. Outer California grew by 18% between 2000 and 2006 – a population increase of 1.9 million – while Commuter California grew by 600,000 or 5 percent. This period covers the housing bubble, a period in which new single-family housing permits in California exceeded 150,000 at its peak. Silicon California, meanwhile, lost 100,000 people and urban California gained 150,000 or 2 percent. Given that the “Raising the Roof” report allowed for the caveat that “economic duress” could reduce population growth from the projections, it is important to note what did not happen during the boom: even in the best of times, there was little or negative growth in California's Silicon and Urban regions.

While the story of the housing bubble is well known, what happened in the five years following the bursting of the housing bubble is also noteworthy: population growth continued to increase in the Outer and Commuter regions, by 700,000 or 5.7% and 400,000 or 3% respectively, while population dropped by 20,000 in Urban California and increased by 170,000 in Silicon California.

This is all the more remarkable because economic conditions deteriorated dramatically in Outer California between 2006 and 2011, as seen by the unemployment rates.

Housing and Rental Statistics

Descriptive statistics for California property owners in these four regions are contained in Table 5. Property-owning residents in urban areas reported house sizes one half a room larger on average between 2000 and 2006.²⁰ In contrast, property owners in Outer areas reported home size increases of .4 rooms; in both Commuter and Coastal California, house size grew by approximately .2 rooms. Homeowners in Urban areas had the smallest number of rooms in their homes, while Commuter California had the most spacious homes.

Homes in Silicon and Urban California were, on average, 42 and 40 years old, and in both regions, no change in the age was seen between 2000 and 2006. In Silicon California between 2006 and 2011 there was an average decline of 1.5 years in age, while houses in Urban California were a flat 40 years old at both times. The age of the housing stock in Commuter and Outer California declined consistently between 2000 and 2006 and 2006 and 2011, indicating newer home construction, while both areas also had significantly newer houses overall than Silicon or Urban California (approximately 20 years old in Outer California and 28 years old in Commuter California). Length of residence in homes declined in all regions between 2000 and 2006, while increasing between 2006 and 2011, indicating that while people moved frequently during the housing bubble period, they held on to properties more in the post-recession era.

The number of units per building also indicates that nearly all of the properties that are owned by residents in Outer California are single-family homes. Only the Silicon regions see some growth in the number of units per building -- although it is not clear whether this is from new construction of multi-family housing projects or conversions of rental properties and former industrial buildings into condominiums and lofts.²¹ Finally, average home costs demonstrate a pattern consistent with the housing bubble narrative. Housing prices rose from 2000 to 2006 and fell between 2006 and 2011 in all but one area: Silicon Cities saw a continued increase in

average home prices, such that average home prices more than doubled between 2000 and 2011 in these areas.

Renter patterns displayed in Table 6 contain similar trends. Rental apartments increased the number of rooms between 2000 and 2006, and declined in their average age in all areas except Urban California, where rental buildings were on average 36 years old. The length of tenancy fluctuates less than the homeownership numbers, but is consistent with the patterns of the housing boom and bust. The number of units per building actually decreased in all areas of the state between 2000 and 2011, an indication that new rental housing projects are, on average, smaller than existing ones, although it is not clear that these are new rental buildings, rather than conversions of single-family homes into rentals.²²

The relationship between housing affordability and population growth

The following figures show scatterplots and best-fit lines for population change and housing affordability in the 233 PUMAs in California. The standardized percent population change in a PUMA from 2000-2006 is displayed in Figure 3 and for 2006-2011 in Figure 4, and is presented visually on the vertical axis, while the horizontal axis contains a standardized measure of housing affordability (the ratio of average wages to average housing prices). The scatterplots are shaded according to the region of the state that the PUMA belongs to; a regression was run with population change as the dependent variable, and housing affordability in the prior period as the independent variable. The R-squared (proportion of variance explained) and slope of the relationship are presented at the bottom of the graph. Both slopes are significantly different from 0 (no relationship) at $p < .001$.

The relationship shown in Figure 3 between housing affordability and population change explains 31% of the variation in population changes. A one standard deviation increase in housing affordability was associated with a .56 standard deviation increase in population. A number of the PUMAs are far above the regression line – up to six standard deviations above the mean in terms of population change. These are in areas known to be epicenters of the housing bubble and experienced population growth between 2000 and 2006 far in excess of

that which could be predicted based on housing affordability. This mostly occurred in the Outer belt of the state. Meanwhile, population actually declined in the least affordable parts of the state.

Figure 3: Standardized Population Change 2000-2006 and Standardized Housing Affordability in 2000

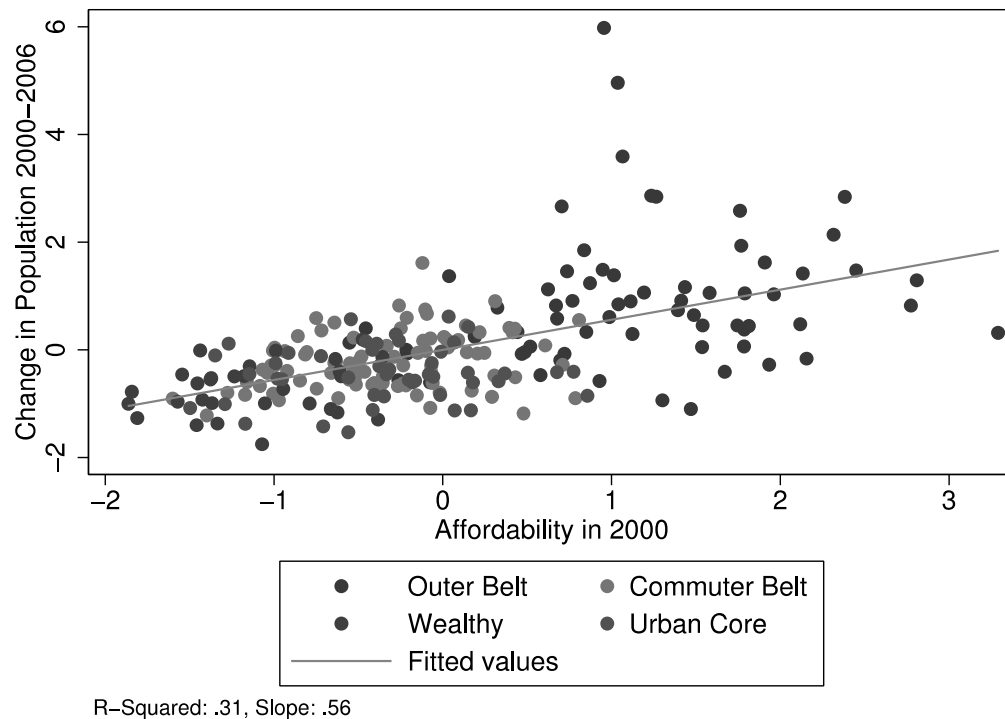
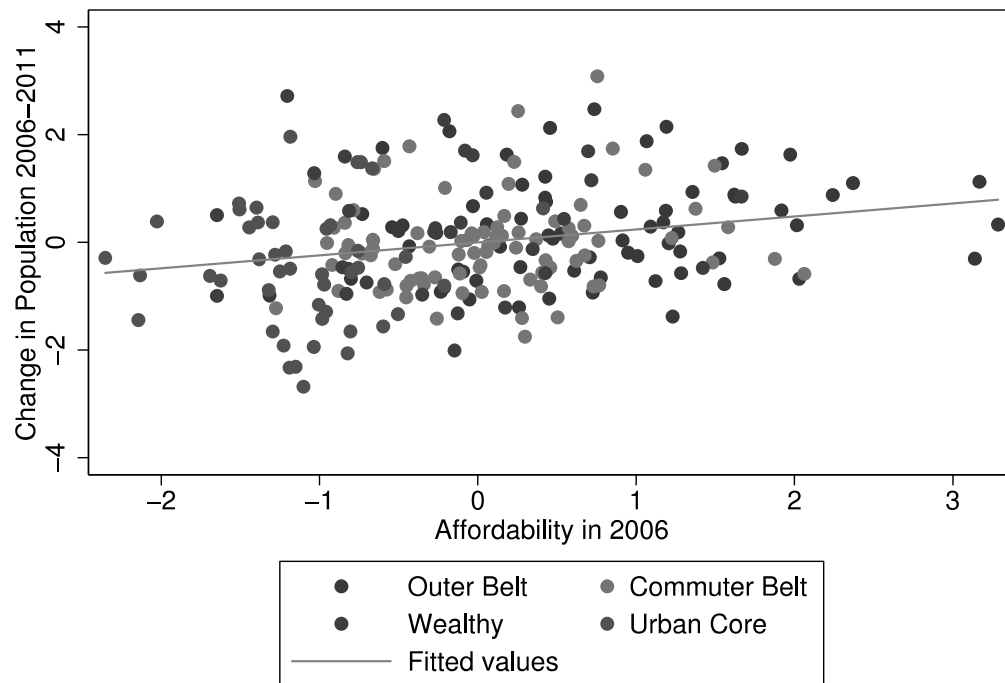


Figure 4 shows that affordability measured in 2006 could explain 6% of the variation in population changes from 2006-2011. The relationship between affordability and population change weakened, with a one standard deviation increase in affordability associated with only a .24 increase in standardized population. PUMAs in urban California experienced the greatest population loss. It is also noteworthy to see the reduction in the range of population growth between 2006 and 2011: PUMAs ranged -2 to 6 standard deviations around average growth between 2000 and 2006, while growth between 2006 and 2011 was between -3 and 3 standard deviations from the mean. This suggests a much more “normal” period of growth than the extremes reached in the housing bubble.

Figure 4: Standardized Population Change 2006-2011 and Standardized Housing Affordability in 2006



R-Squared: .06, Slope: .24

Which Way CA?

At the start of this essay, the metaphor of an invisible blockade was used to describe the departure of lower income Californians. The results presented above demonstrate that migration trends since 2000 support the conjecture, and provide circumstantial, but by no means conclusive, evidentiary support for the hypothesis that housing affordability is at the root of the issue. By extension, the data suggest that there are millions of potential Californians who left or never came. Should this development be celebrated or denounced?

Survey data on attitudes of Californians regarding development, especially in the wealthier, “Silicon” areas of the state that have been resistant to growth, are difficult to find, but some data has emerged. Housing and the cost of living are the number one issues for San Francisco residents, with 55 percent identifying the cost of rent and homes as their top issue, according to a San Francisco Chamber of Commerce Poll. But while 87% of San Franciscans think it is

extremely important or important that something be done to “control the cost of living,” only sixty-five percent think the construction of more housing is important or extremely important, according to the San Francisco Survey. Only 12 percent of Bay Area residents support the use of eminent domain for private developments, according to the USF McCarthy Center poll – an apparent contradiction if narrow interests must be overcome to create more housing. When it comes to who people trust to address housing, the USF poll found that housing developers had the least trust of any group or individual named, with 50% having little or no trust.

Santa Monica residents of 2014 were asked directly about their attitude toward new developments: “no development/stop growth” was the fourth most popular response to the question “what development would you prefer” with 12.2% of survey respondents, while more affordable housing attracted only 9.6% of responses (anything to improve parking came in first). Fifty-eight percent of Santa Monica residents thought the skyline had too many tall buildings, 47 percent thought new development would harm the “character” of Santa Monica, and opposed taller buildings and higher density development. Older and white residents are disproportionately (and overwhelmingly) hostile to development.²³ There is an active “Residocracy” movement in Santa Monica that attempts to stop large-scale developments, including those in transit friendly areas to be connected with the rest of the city by rail.²⁴

While California residents may not favor growth due to local interests (traffic, parking, schools), there are several reasons to believe population growth in the Golden State might be a good thing. Globally, given an environmental focus on reducing greenhouse gas emissions, few things would be better than for people within the U.S. to migrate to areas of California that require little heating or cooling, are densely populated and thus energy efficient, and are more reliant on mass transit. For example, in a counterfactual scenario in which all 5 million missing Californians ended up in Texas over the last 21 years, a back of the envelope calculation shows that the cumulative consequence of this would have been to increase greenhouse gas emissions by approximately 800 million metric tons from 1990-2011, or approximately 50 million metric tons in 2011 alone (one percent of the U.S. total).²⁵ Limiting population growth is

not merely a local issue for city councils, and perhaps should not be determined solely based on the number of parking spots or the local traffic impact of a proposed development.²⁶

In addition to environmental consequences, spatial segregation has implications for equity and economic development. Nationally, where people live is a strong predictor of success in later life, and California can rightfully boast to having produced the greatest income mobility in the past: those born in San Francisco and San Jose had the greatest chance of moving from the bottom quintile of the income distribution to the top – nearly 3 times more than in Atlanta, GA.²⁷ Given a need to address income inequality nationally, efforts to help people to relocate to more prosperous and equality-producing regions of the country should be part of the discussion. California’s Department of Housing released an “analysis of impediments” to fair housing and a recent report pointed out that the lack of new housing development poses the number one challenge to removing the legacy of policies that prevented equal access to housing for much of the 20th Century.²⁸

All of these considerations suggest that further population growth and particularly an increase in multi-family housing would be a positive development for the state on several grounds. But will additional housing and population growth lead to economic growth? Although the multi-causal nature of economic growth and the endogenous relationships between population, housing, and economic development lead to difficulty in recommending housing construction as a means to accelerate economic development, reducing housing costs by building more multi-family housing could be the key.

As one of the epicenters of the housing bubble, California continues to face an unemployment rate that is higher than the national average and one that is unlikely to recover without making progress in the critical construction sector. Building housing in a more sustainable fashion and one balanced between regions of the state could return the important construction sector to growth. Lower housing costs could ease upward wage pressure for workers, and make it easier and more attractive for both workers and firms to remain or locate in the state. Population growth would also aid the state in addressing budgetary challenges. Because migrants are more

likely to be in the labor force, attracting workers would improve the fiscal position of the state. But will Californians accept a pro-growth agenda?

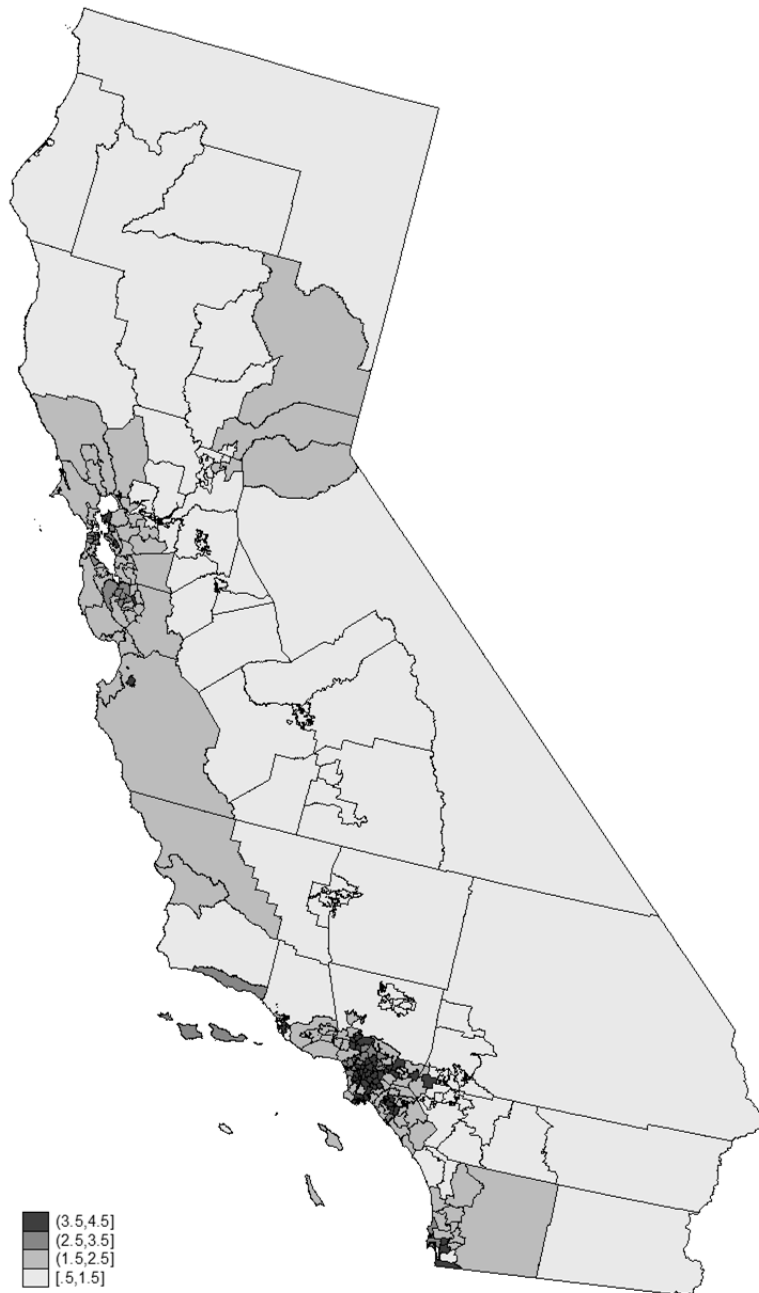
Conclusions

Given the survey numbers above, contradictory as they may seem, a shift in public opinion is unlikely. Although housing affordability is recognized as an issue, relaxing obstacles to development is not yet the agreed upon solution, and the public is certainly not ready to hand over the keys to the developers. As a consequence, although the past cannot predict the future, it is likely that the patterns described here will continue for some time.

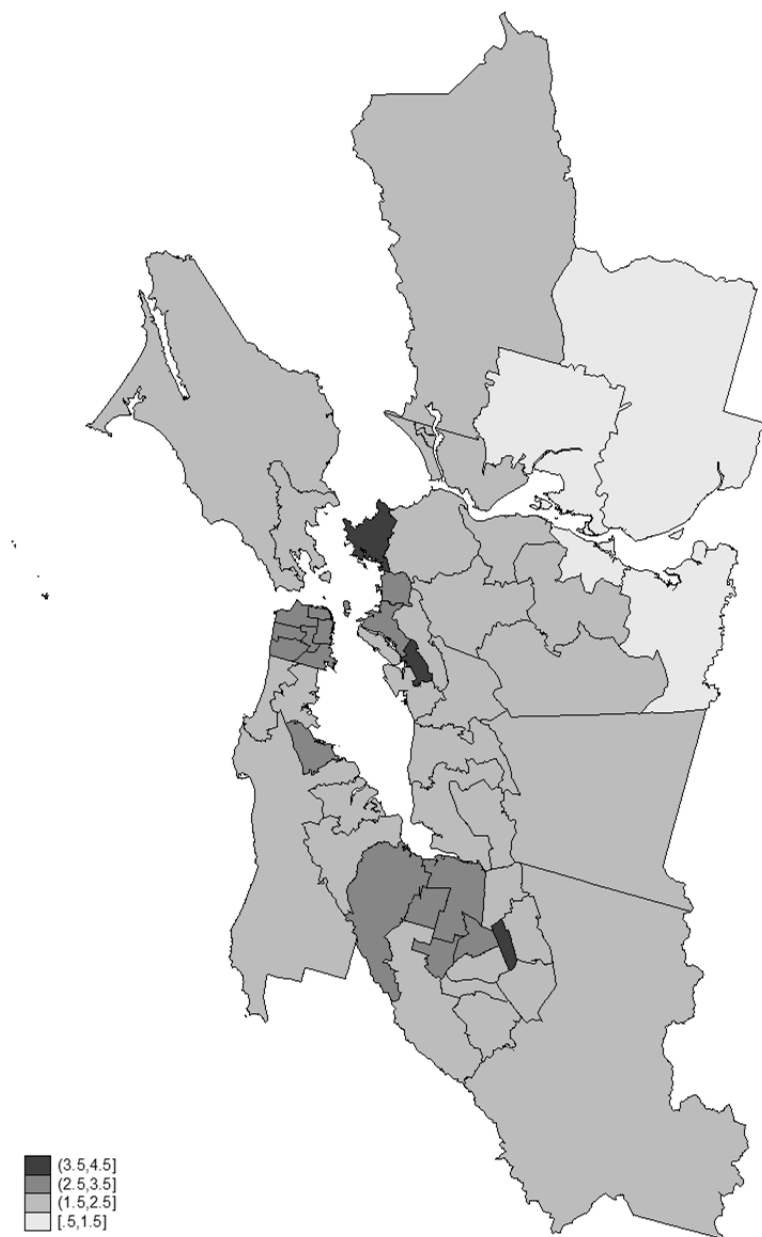
Zero to slow population growth can be expected in large parts of California while migration patterns will make California wealthier and better educated. A shortfall in housing construction will continue, especially of multi-family units, as will the emigration of poorer and middle-class Californians to the rest of the U.S. and the lower cost parts of the state. Overall population projections are likely to be overly optimistic and California will maintain pace with or fall behind the rest of the country in growth. Absent any economic or societal duress that would produce a widespread change in attitudes toward development, the invisible blockade will go on.

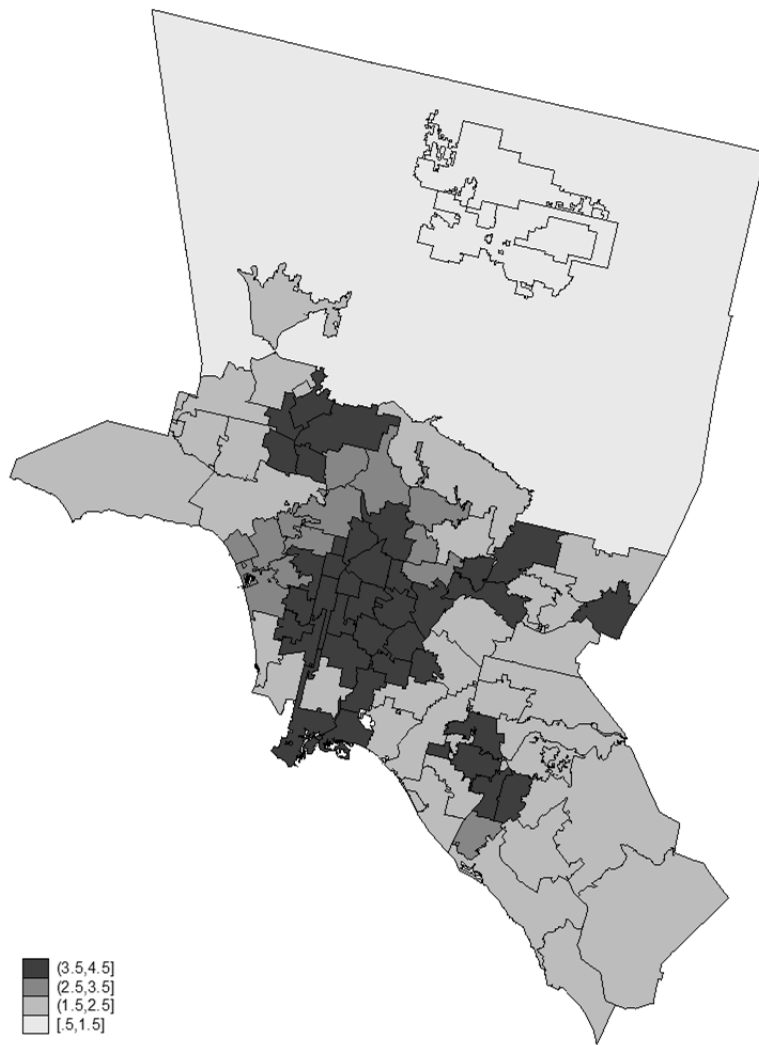
Cluster Analysis of California

Darkest: Urban
Dark: Silicon Cities
Pale: Commuter
Light: Outer



Bay Area





Los Angeles

Table 1: 2007 – 2011 County Migration Patterns by Annual Personal Income

County	Income	Pop (1000s)	Out	In	Diff	US Out	US In	US Diff	State Out	State In	State Diff	For In
All	< 25k	16136	5.39	6	0.61	1.84	1.35	-0.49	3.55	3.55	0	1.1
All	25-65k	8109	4.16	4.39	0.23	1.42	1.21	-0.22	2.74	2.74	0	0.44
All	> 65k	4943	3.54	3.92	0.39	1.22	1.18	-0.03	2.32	2.32	0	0.42
Alameda	< 25k	588	5.83	7.81	1.98	1.36	1.59	0.23	4.47	4.45	-0.02	1.77
Alameda	25-65k	348	4.87	5.75	0.89	0.87	1.32	0.45	4	3.83	-0.17	0.6
Alameda	> 65k	267	4.28	4.54	0.26	0.82	1.12	0.3	3.46	3.05	-0.41	0.37
Contra Costa	< 25k	388	5.58	6.37	0.79	1.19	1.09	-0.1	4.38	4.09	-0.29	1.19
Contra Costa	25-65k	234	3.8	5.14	1.34	0.64	0.84	0.19	3.16	3.97	0.81	0.33
Contra Costa	> 65k	198	2.7	4.78	2.09	0.61	0.86	0.25	2.09	3.6	1.51	0.33
Fresno	< 25k	445	3.65	4.62	0.96	0.57	0.91	0.33	3.08	2.95	-0.13	0.76
Fresno	25-65k	173	2.12	2.55	0.43	0.33	0.54	0.22	1.79	1.82	0.03	0.18
Fresno	> 65k	74	2.24	2.45	0.21	0.22	0.64	0.43	2.03	1.6	-0.43	0.21
Kern	< 25k	392	5	8.27	3.27	0.64	1.35	0.71	4.36	6.2	1.83	0.72
Kern	25-65k	150	2.36	4.08	1.72	0.48	1.15	0.66	1.87	2.67	0.8	0.26
Kern	> 65k	67	1.99	3.66	1.66	0.53	1.23	0.69	1.46	2.21	0.76	0.21
Los Angeles	< 25k	4589	3.63	3.58	-0.05	1.42	1.05	-0.37	2.22	1.49	-0.72	1.04
Los Angeles	25-65k	2098	3.01	2.65	-0.36	1.21	1.04	-0.17	1.8	1.23	-0.57	0.38
Los Angeles	> 65k	1150	2.84	2.46	-0.38	1.13	1.11	-0.02	1.71	0.98	-0.73	0.38
Orange	< 25k	1229	4.78	5.38	0.6	1.42	1.2	-0.22	3.37	2.95	-0.42	1.23
Orange	25-65k	664	4.14	4.29	0.15	1.15	1.07	-0.08	2.99	2.86	-0.13	0.37
Orange	> 65k	492	2.92	3.71	0.79	0.87	1.2	0.34	2.05	2.11	0.06	0.39
Others	< 25k	3464	8.3	7.69	-0.61	3.35	1.18	-2.16	4.95	5.63	0.67	0.88
Others	25-65k	1764	5.83	4.8	-1.03	2.35	0.92	-1.43	3.48	3.53	0.05	0.35
Others	> 65k	974	4.74	4.39	-0.35	1.98	0.93	-1.04	2.76	3.16	0.4	0.29

Riverside	< 25k	949	4.8	6.86	2.07	1.18	1.27	0.09	3.61	4.82	1.21	0.77
Riverside	25-65k	447	3.79	6.2	2.41	0.8	1.18	0.38	2.99	4.66	1.67	0.36
Riverside	> 65k	226	3.08	5.66	2.58	0.59	1.21	0.63	2.49	4.21	1.72	0.23
Sacramento	< 25k	586	5.42	6.86	1.44	1.21	1.45	0.24	4.21	4.61	0.4	0.81
Sacramento	25-65k	345	3.85	4.81	0.97	0.75	0.98	0.23	3.1	3.63	0.54	0.2
Sacramento	> 65k	173	3.17	3.68	0.51	0.66	1.02	0.36	2.51	2.49	-0.01	0.17
San Bernardino	< 25k	915	5.29	6.96	1.67	1.41	1.47	0.05	3.88	4.77	0.89	0.72
San Bernardino	25-65k	420	4.54	5.47	0.92	1.18	1.11	-0.07	3.36	3.88	0.52	0.47
San Bernardino	> 65k	191	3.57	3.97	0.4	0.84	0.78	-0.06	2.73	2.85	0.12	0.33
San Diego	< 25k	1274	5.05	6.98	1.93	2.49	2.82	0.33	2.56	2.63	0.07	1.53
San Diego	25-65k	727	3.73	4.93	1.2	2.15	2.48	0.33	1.58	1.52	-0.06	0.93
San Diego	> 65k	442	2.97	4.05	1.08	1.6	2.04	0.44	1.37	1.38	0.01	0.63
San Francisco	< 25k	321	7.56	8.83	1.27	1.59	2	0.42	5.97	4.63	-1.34	2.2
San Francisco	25-65k	201	6.86	7.69	0.83	1.59	2.4	0.81	5.28	4.5	-0.78	0.79
San Francisco	> 65k	185	6.71	6.75	0.04	1.78	2.12	0.34	4.93	3.79	-1.14	0.84
Santa Clara	< 25k	662	5.23	6.5	1.26	1.29	1.43	0.14	3.95	2.82	-1.12	2.24
Santa Clara	25-65k	360	4.13	4.92	0.79	1.01	1.36	0.35	3.13	2.79	-0.33	0.77
Santa Clara	> 65k	376	3.57	4.4	0.84	1.05	1.25	0.2	2.52	2.2	-0.32	0.95
Ventura	< 25k	333	4.91	5.47	0.56	1.26	1.4	0.14	3.66	3.18	-0.47	0.9
Ventura	25-65k	179	3.28	4.67	1.39	0.89	1.32	0.43	2.39	2.96	0.57	0.39
Ventura	> 65k	129	2.83	3.99	1.16	1	0.88	-0.12	1.83	2.81	0.98	0.3

Table 1 Glossary: “Out” refers to the percentage of population in the county and income group that left the county. “In” refers to the percentage of population in the county and income group that arrived in the county. “U.S. Out” and “U.S. In” refer to the exchange between California and the rest of the U.S., while “State Out” and “State In” refer to the population exchange between parts of California. “For In” refers to the inbound population from outside of the U.S. (statistics for the foreign-outbound are not captured by the Census).

Table 2: 2000-2011 Population Change and Median Wages in Super PUMAs							
Region	Pop	Avg. Wage	MedWage	OutMed	IntOutMedWage	InMedWage	IntInMedWage
North	118,546	32,206	24,199	17,850	21,563	27,357	23,126
Humboldt	130,908	28,881	20,879	20,053	17,433	32,784	15,357
Shasta	179,293	35,322	26,242	17,231	26,658	20,914	22,045
Lake	152,052	30,074	21,973	33,732	21,971	16,290	17,821
Colusa	124,849	29,641	23,250	11,078	20,189	14,108	16,708
Butte	219,210	31,896	22,612	21,720	20,182	26,036	14,151
Nevada	121,190	36,616	24,642	16,033	24,071	28,128	25,516
Sutter	165,268	35,754	26,500	26,197	32,477	19,945	26,362
Yolo	197,601	42,608	31,318	25,007	23,948	20,672	26,396
Napa	134,765	45,304	32,720	11,608	31,107	25,264	25,635
Sonoma	473,983	43,321	31,011	28,341	26,317	22,559	26,494
Marin	250,702	65,497	39,501	36,874	32,384	26,849	39,789
Solano	410,996	45,020	36,882	29,144	32,684	35,854	32,928
Sacramento	1,402,089	42,618	33,295	24,964	28,121	23,207	26,032
Placer	342,920	50,848	38,112	25,179	24,191	34,889	30,338
El Dorado	178,627	48,198	34,846	20,969	24,296	15,990	27,802
Calaveras	191,562	37,228	27,886	22,947	19,262	21,022	25,799
Stockton	679,404	39,069	30,397	20,305	27,149	22,142	29,411
Stanislaus	1,038,918	57,706	41,387	34,329	32,417	25,420	40,419
Richmond	791,926	62,130	42,518	42,021	40,543	39,227	41,013
San Francisco	715,090	61,994	41,808	36,346	44,110	40,112	40,500
San Mateo	1,488,671	53,401	40,346	27,828	38,235	27,151	34,231
Alameda	513,001	37,368	28,689	11,702	28,325	23,232	29,670
Santa Clara	1,771,317	64,241	45,286	35,798	41,293	44,488	40,461

Santa Cruz	256,306	44,214	27,856	19,953	23,930	20,617	16,545
Monterey	467,442	38,303	27,054	25,398	20,618	22,618	27,721
Merced	249,541	31,933	22,800	12,353	19,218	26,544	29,273
Madera	149,056	33,550	22,847	22,075	23,424	27,119	22,910
Fresno	915,432	34,980	24,664	16,728	21,267	15,687	18,548
Tulare	431,668	31,928	23,783	17,639	15,111	15,350	19,318
Kings	150,046	34,211	26,097	27,849	22,931	20,991	26,455
SLO	265,636	39,830	26,318	25,913	22,360	22,890	18,164
Bakersfield	812,493	37,115	26,058	21,176	21,077	22,943	22,542
San Bernardino	2,024,239	38,880	30,384	22,938	27,904	23,354	29,268
LA	9,875,929	42,620	28,087	24,273	29,353	24,105	26,863
Ventura	809,542	48,089	32,325	29,587	30,453	23,223	27,810
Santa Barbara	411,507	40,068	26,409	27,090	24,001	27,300	14,775
Orange	3,018,367	51,804	34,366	28,042	31,990	29,719	32,991
Riverside	2,128,190	39,769	29,640	19,040	27,712	24,047	31,794
San Diego	3,035,952	46,327	33,030	28,324	27,374	27,634	26,377
Imperial	167,493	33,560	25,055	23,437	23,160	32,603	42,051
Total	901,506*	42,052	30,075	24,124	26,605	25,375	27,108

Table 2 Glossary: “Avg. Wage” is the average wage in the region indicated, “MedWage” is the median wage, “OutMed” is the median wage of outbound migrants, “IntOutMedWage” is the median wage of outbound persons but remained in California [internal outbound migrants], “InMedWage” is the median wage of all inbound arrivals, “IntInMedWage” is the median wage of inbound arrivals from within California [internal inbound migrants]. * This is the average population of each Super-PUMA region.

Table 3: Population and Labor Force Statistics				
	Population	Unemployment Rate	MeanWage	MedianWage
Outer2000	10,380,773	0.08	42,618	33,522
Outer2006	12,230,523	0.07	50,855	39,352
Outer2011	12,906,232	0.15	54,792	40,810
Commuter2000	12,669,850	0.04	61,876	44,162
Commuter2006	13,291,786	0.05	73,238	52,470
Commuter2011	13,701,057	0.1	79,522	55,385
Silicon2000	4,123,344	0.05	58,860	40,810
Silicon2006	4,078,770	0.05	74,940	51,012
Silicon2011	4,249,924	0.09	80,845	53,927
Urban2000	6,710,693	0.09	34,734	26,235
Urban2006	6,856,470	0.07	40,965	32,065
Urban2011	6,834,699	0.13	43,282	32,065

Table 4: Population and Labor Force Statistics									
	Age	Owners	Renters	Car	Car Time	Hispanic	Black	Asian	Immig
Outer2000	33.42	0.61	0.36	0.88	27.12	0.32	0.06	0.06	0.18
Outer2006	33.66	0.63	0.35	0.87	26.8	0.38	0.06	0.07	0.2
Outer2011	34.89	0.58	0.4	0.86	27.01	0.42	0.06	0.08	0.2
Commuter2000	35.92	0.66	0.32	0.87	27.56	0.21	0.04	0.14	0.23
Commuter2006	37.03	0.67	0.31	0.84	26.05	0.24	0.04	0.16	0.25
Commuter2011	38.31	0.63	0.36	0.83	26.47	0.26	0.04	0.18	0.25
Silicon2000	36.89	0.4	0.56	0.73	24.46	0.21	0.07	0.19	0.34
Silicon2006	38.04	0.43	0.53	0.7	23.76	0.21	0.06	0.21	0.34
Silicon2011	38.31	0.4	0.57	0.68	24.08	0.22	0.06	0.23	0.34
Urban2000	30.5	0.43	0.55	0.81	27.17	0.6	0.13	0.1	0.41
Urban2006	31.87	0.45	0.53	0.81	26.62	0.64	0.11	0.1	0.4
Urban2011	33.4	0.42	0.57	0.8	26.65	0.65	0.11	0.11	0.39
Total	35.2	0.57	0.41	0.83	26.49	0.36	0.06	0.13	0.27

Table 4 Glossary: Age is the average age in each region. Owners is the percentage of residents in each region that own property; renters is the percentage who rent. Car is the percentage of residents who own a car. Car Time is the average number of minutes spent commuting by car. Hispanic, Black, and Asian are the percentage of residents belonging to these ethnic and racial groups. Immig is the percentage of residents who were born outside of the United States.

Table 5: Statistics of Owners						
	Rooms	YrBuilt	YrMovedIn	Units	MeanHValue	MedHValue
Outer2000	5.84	23.88	15.3	1.09	224,046	200,405
Outer2006	6.2	21.33	10.8	1.08	611,180	510,122
Outer2011	.	19.98	12.85	1.11	362,119	291,498
Commuter2000	6.22	29.25	16.58	1.45	497,584	400,810
Commuter2006	6.39	28.27	12.8	1.48	984,527	910,932
Commuter2011	.	27.67	14.86	1.47	859,646	692,308
Silicon2000	5.8	44.62	18.57	2.86	644,517	510,122
Silicon2006	6.03	44.17	14.1	3.27	1,080,626	1,275,305
Silicon2011	.	42.56	15.42	3.56	1,255,114	976,519
Urban2000	4.95	40.58	18.19	1.65	256,994	236,842
Urban2006	5.66	40.63	13.96	1.63	732,101	655,871
Urban2011	.	40.27	16.01	1.84	465,545	437,247
Total	6.04	29.05	14.36	1.52	629,520	510,122

Table 5 & 6 Glossary: Rooms is the average number of rooms per house or apartment. YrBuilt is the number of years since the property was built. YrMovedIn is the number of years the current resident has lived in the property. Units is the number of units in the building property. MeanHValue is the average household value. MedHValue is the median household value. MeanRent and MedRent are the average and median monthly rental costs.

Table 6: Statistics of Renters							
	Rooms	YrBuilt	YrMovedIn	Units	MeanRent	MedRent	
Outer2000	4.24	28.49	5.19	7.79	781	743	
Outer2006	4.7	26.07	4.29	5.83	.	.	
Outer2011	.	23.53	4.57	5.41	1,376	1,283	
Commuter2000	4.05	30.27	5.73	11.15	1,305	1,224	
Commuter2006	4.47	28.38	4.81	10.04	.	.	
Commuter2011	.	27.31	5.08	9.77	2,024	1,895	
Silicon2000	3.38	38.72	7.24	11.91	1,292	1,166	
Silicon2006	3.8	37.99	6.15	12.7	.	.	
Silicon2011	.	36.13	6.14	12.7	2,026	1,895	
Urban2000	3.25	35.47	6.8	9.72	903	874	
Urban2006	4.02	37.08	6.3	9.32	.	.	
Urban2011	.	35.8	6.67	8.89	1,545	1,457	
Total	4.05	31.05	5.61	9.16	1,407	1,239	

Endnotes

¹ See <https://www.youtube.com/watch?v=zIZDMtRDCxl>.

² California Department of Finance, "Projections of Population and Births - Demographic Research,"

January 2013,

<http://www.dof.ca.gov/research/demographic/reports/projections/view.php>.

³ "What a Difference Four Years Make: U.S. Population Projected to Grow at a Slower Pace Over the Next Five Decades | Random Samplings," accessed March 4, 2014, <http://blogs.census.gov/2012/12/12/what-a-difference-four-years-make-u-s-population-projected-to-grow-at-a-slower-pace-over-the-next-five-decades/>.

⁴ California State Department of Finance, "Population Projections by Race/Ethnicity for California and Its Counties: 1990-2040," April 1993, <http://web.archive.org/web/19961102144236/http://www.dof.ca.gov/html/Demograp/p1netar.htm>.

⁵ California Department of Housing and Community Development, "Raising the Roof- California Housing Development Projections and Constraints 1997-2020," accessed March 5, 2014, <http://www.hcd.ca.gov/hpd/hrc/rtr/>.

⁶ Public Policy Institute of California, "Population Size & Growth (PPIC Key Stats)," accessed March 5, 2014, <http://www.ppic.org/main/keystat.asp?i=1261#4>.

⁷ "The Original NPH Toolkit," *Non-Profit Housing Association of Northern California*, accessed March 5, 2014, <http://nonprofithousing.org/resources/the-original-nph-toolkit/>.

⁸ Mark Obrinsky and Debra Stein, *Overcoming Opposition to Multifamily Rental Housing*, Revisiting Rental Housing: A National Policy Summit (Joint Center for Housing Studies: Harvard University, November 2006).

⁹ California Department of Finance, "Latest California Construction Data," accessed March 5, 2014, http://www.dof.ca.gov/html/fs_data/latestecondata/FS_Construction.htm.

¹⁰ Kevin Starr, *Golden Dreams: California in an Age of Abundance, 1950-1963* (Oxford; New York: Oxford University Press, 2009), 413.

¹¹ Michael A. Willemssen and Gail V. Phillips, "Down-Zoning and Exclusionary Zoning in California Law," *Hastings Law Journal* 31 (1980 1979): 103.

¹² Residents of multi-family housing may actually pay more taxes and have fewer children. See Obrinsky and Stein, *Overcoming Opposition to Multifamily Rental Housing*.

¹³ The State of California has found it fitting to create a website dedicated to battling NIMBYism. Department of Housing and Community Development, "NIMBY Resources," accessed March 5, 2014, <http://www.hcd.ca.gov/hpd/nimby.htm>.

¹⁴ Steven Ruggles et al., *Integrated Public Use Microdata Series: Version 5.0 [Machine-Readable Database]* (Minneapolis: University of Minnesota, 2010).

¹⁵ Demographic Internet Staff U. S. Census Bureau, "County-to-County Migration Flows," accessed March 7, 2014, <https://www.census.gov/hhes/migration/data/acs/county-to-county.html>.

¹⁶ The smallest region in this data is the Public Use Microdata Area (or PUMA), which contains approximately 160,000 residents. Because of the nature of the data, all of the conclusions and facts presented here are descriptive in nature. While they may support a hypothesis that housing affordability and restrictions on developments are limiting growth, they cannot show any causal relationships between factors such as housing affordability and construction, and employment or population growth. The movement of jobs and workers may precede or follow housing prices; the direction of the relationship is unclear. Additionally, as with much Census data, these figures are subject to top-coding and attenuation bias with respect to incomes, rooms per house, units per building, and so on. Accordingly, it is possible (and even likely), that there is dual or multiple causation, and that these issues are fundamentally over-determined and that no single cause can be isolated. Nevertheless, this chapter ventures into these murky waters if only to see whether the anecdotal and qualitative observations made in the media and by the public regarding the cost of living in California can be borne out by quantitative measures found in U.S. Census data.

¹⁷ Tom Gray and Robert Scardamalia, "Civic Report 71 | The Great California Exodus: A Closer Look," accessed March 6, 2014, http://www.manhattan-institute.org/html/cr_71.htm#Uxjwpl6Lg_N.

¹⁸ One problem to note is the top-coding problem with respect to income: earning over \$65,000 may put one in the upper end of this data overall, but it does not reflect the extreme income values at the top end, especially in wealthier counties. Given that many of the complaints regarding cost of living are from those who are "middle-class" and earning more than \$65,000, it is possible that out-migration at all income levels in these counties indicates dissatisfaction with the cost of living.

¹⁹ The factor analysis statistical technique permits a grouping of related areas.

²⁰ Unfortunately, data on the number of rooms were unavailable for 2011.

²¹ Anna Marie Erwert, "Bay Area Loft Conversions: New Life for Old Buildings," *On the Block*, August 8, 2013, <http://blog.sfgate.com/ontheblock/2013/08/08/bay-area-loft-conversions-new-life-for-old-buildings/>; Richard Gonzales, "As Rent Soars, Longtime San Francisco Tenants Fight to Stay," *NPR.org*, accessed March 6, 2014, <http://www.npr.org/2013/12/03/247531636/as-rent-soars-longtime-san-francisco-tenants-fight-to-stay>.

²² Heather Perlberg and John Gittelsohn, "Wall Street Landlords Buy Bad Loans for Cheaper Homes," *Bloomberg*, February 21, 2014, <http://www.bloomberg.com/news/2014-02-21/wall-street-landlords-buy-bad-loans-for-cheaper-homes-mortgages.html>.

²³ Polling data are from: San Francisco Chamber of Commerce: <http://www.sfexaminer.com/sanfrancisco/sfs-affordability-is-top-concern-in-new-poll-from-sf-chamber-of-commerce/Content?oid=2707961>. The San Francisco Survey: <http://thomasmade.com/wp-content/uploads/2013/11/Nov2013Report.pdf>. USF McCarthy Center: <http://www.sfgate.com/file/698/698-USF%20Affordability%20and%20Tech%20poll%20Dec%202013.pdf> and http://www.usfca.edu/uploadedFiles/Destinations/Institutes_and_Centers/McCarthy/U

[SF%20McCarthy%20Center%20June%202011%20Bay%20Area%20Survey\(1\).pdf](#). The Santa Monica poll results are described in a *Santa Monica Daily Press* article at <http://smdp.com/voters-dont-want-development-says-huntley-funded-poll/128043>.

²⁴ <https://www.residocracy.org/>

²⁵ Is this large? 50 million metric tons of CO₂ are the equivalent emissions of 10 million cars annually or all of the emissions produced by power plants in the State of California in 2011. This back of the envelope estimate is arrived at by using the per capita greenhouse gas emissions of California and Texas, including only the residential, transportation, and energy related emissions, and then extrapolating the per capita emissions estimates based on the hypothetical populations of each state for each year. Between 1990 and 2011, both Texas and California population grew by approximately 8 million people – the counterfactual posed here asks what would happen if Texas population had grown by 3 million and California by 13 million. In 2011, California’s per capita emissions from the sources mentioned above were 7.3 metric tons, while Texas emissions were 17.4. In 1990, these per capita emissions were 9.1 and 20.6, respectively. Why is Texas so high? Texas transportation emissions are 1.5 times higher than California because gas is cheaper, population is less dense, commutes are longer, the vehicle fleet is less efficient, and fewer people use public transportation in Texas. Texas energy emissions are twice as high because Texas gets 36% of its energy from coal compared to 15% in California. Texans also use twice the electricity of Californians, having three times as many hot days. See:

http://www.e3network.org/papers/Why_do_state_emissions_differ_so_widely.pdf

page 13. Greenhouse gas emissions data from 1990-2011 are from EPA:

http://www.epa.gov/statelocalclimate/documents/pdf/CO2FFC_2011.pdf, and

population estimates are from the Census:

<http://www.census.gov/popest/data/intercensal/index.html>. Car emissions are here:

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²⁶ Edward L. Glaeser, *The Supply of Environmentalism*, Working Paper (National Bureau of Economic Research, August 2013), <http://www.nber.org/papers/w19359>.

²⁷ Raj Chetty et al., *Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States*, Working Paper (National Bureau of Economic Research, January 2014), <http://www.nber.org/papers/w19843>.

²⁸ California Department of Housing and Community Development, “Analysis of Impediments to Fair Housing,” accessed March 5, 2014, http://www.hcd.ca.gov/hpd/hrc/rep/fed/ai_web.html.

CHAPTER 2

The Rail Revolution in Los Angeles: Past, Present and Future

Ethan N. Elkind

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In the last few years, Los Angeles has been on a rail-building boom like no other metropolitan area in the United States. As of late 2014, the region has five major rail transit projects in some phase of construction, funded in part with up to \$13 billion in local sales tax funds. This news may surprise people who consider Los Angeles to be the car capital of America, if not the world. But the city that glamorized the auto-dependent lifestyle is reinventing itself as an innovative leader in rail transit. How did this transformation happen? What are the results so far? And what can we expect from the rail system in the years to come?

Metro Rail is ultimately a story of how the leaders of a decentralized and enormous county persevered over decades to reach an electoral consensus on the value of rail, after residents tired of the negative consequences of an automobile-centered life. These residents and their leaders saw rail as a means to solve much of the region's traffic, air pollution and quality-of-life problems. Yet because Los Angeles County encompasses 88 cities and almost 500 square miles, with power as diffuse as the land use patterns, reaching consensus among the diverse electorate and its leaders took decades and cost the region missed opportunities for generous federal funding offers.

And ultimately, when it came to planning and building the rail system, competing local leaders and activist homeowners too often hindered the process by forcing inefficient route choices and thwarting effective ones. This dynamic continues today and threatens to prevent the system from reaching its full economic and environmental potential.

This chapter will describe the history of the burgeoning Los Angeles Metro Rail system, from the 19th-century origins in a privately funded streetcar trolley network to the advent of modern rail transit in the 1980s that is now once again in full swing. It will provide an analysis of the ongoing political dynamics that hinder the system and recommend policies to help make the full promise of Metro Rail a reality, including ways to better plan and build future lines and improve neighborhood development around the station areas.

19th Century to 1961: A Brief History of the Pre-Metro Rail Years in Los Angeles

What modern Angelenos refer to as the auto-oriented sprawl of Los Angeles actually began with the first streetcar trolley system in Los Angeles. The original large real estate developers in the city, exemplified by Henry Huntington, built the first streetcar lines at the end of the 19th and the turn of the 20th century to encourage the growth of single-family home subdivisions. The streetcars enabled new residents to live far from the city center and take the trains to work and to services downtown. Huntington consolidated these trains into the Pacific Electric system, known as the Yellow and Red Cars.

As the population of Los Angeles and the popularity of the personal automobile soared during the early 20th century, the streetcars began falling out of favor. Now competing with the automobile, they were slow and less desirable, as many traveled along the same streets as automobiles. The streetcars began losing money, and voters refused to rescue them – a

pattern played out in many cities across America at the time. Ultimately, the last Red Car stopped service in 1961, on the route from downtown Los Angeles to Long Beach.

1961-1979: Early Rail Boosters

Many Angelenos hated to see the Pacific Electric system die. As traffic and air quality worsened throughout the 1950s and 1960s, nostalgia for the rail system became widespread, particularly in the urban core. Downtown businesses in particular lobbied to get a new rail network started, out of fear that downtown would become a hollowed-out economic wasteland due to competition from suburban job centers. In response, the state legislature created the Southern California Rapid Transit District (SCRTD) in part to get a subway built down Wilshire Boulevard from downtown, which had become the most densely-populated corridor west of the Mississippi River.

By the mid-1960s, the time appeared ripe to invest in a new urban rail system. The federal government, under President Lyndon B. Johnson, had begun a federal initiative to provide capital grants to build new urban rail systems. Washington was willing to cover 80 percent of the costs if a local government could provide the remaining 20 percent. Rail systems including San Francisco's BART, Washington, D.C.'s Metro and Atlanta's MARTA eventually resulted from this generous federal funding program.

But the story in Los Angeles was different. Early efforts to bring rail to the city failed. To raise the local piece of the funding and to demonstrate popular support for rail, the transit agency placed a sales tax measure on the Los Angeles County ballot in 1968. Voters rejected it, and federal officials viewed the defeat as a sign that Angelenos did not support rail.

In 1973, however, a city councilman named Tom Bradley set out to change the transit dynamics in Los Angeles. Bradley's campaign for mayor made mass transit a top issue. He pledged to begin building a rail system "within eighteen months" of taking office – a pledge he later regretted and claimed was a spontaneous outburst. He became mayor in 1973, and by the fall of 1974 he successfully managed to get the transit agency to put another sales tax measure on the ballot. But despite Bradley's tireless campaigning for it, voters rejected it. Bradley was then forced to focus on raising local dollars through gas tax revenue.

Meanwhile, Los Angeles County Supervisor Baxter Ward, an eccentric former television newscaster, tried to get his grand vision for rail approved by the voters. Ward represented the more suburban parts of the county and was the crucial swing vote on the five-member board. More importantly, Ward loved trains but had no interest in Bradley's downtown-focused subway.

As a county supervisor, he wanted cheap rail lines spread throughout the county. In 1976, he proposed a one-cent sales tax increase to finance an elaborate plan to bring rail to the freeways and old rail rights-of-way. The plan seemed ill-considered, unrealistic and expensive to most

officials, and the *Los Angeles Times* ran a scathing series of articles criticizing the plan before Election Day. Ward's plan lost decisively.

While Los Angeles dithered in disagreement, the federal government was running out of money to fund rail projects – the result of a national recession and greater-than-expected costs to build rail. Only as the Ford Administration was on its way out of Washington did it agree to fund a study in Los Angeles on rail. Newly elected president Jimmy Carter was close to Bradley, but he was personally skeptical of urban rail. He and his administration thought Los Angeles should develop bus-only lanes on freeways rather than investing in an expensive rail project for the downtown area. But by 1980 the Carter Administration pledged funds for Los Angeles to engineer and plan a rail line.

1980: Hahn's Bare-bones Campaign and the First New Rail Lines

Supervisor Kenneth Hahn did not want to wait for the federal government. He was an old-time Angeleno and a fixture on the county board of supervisors. He loved the Red and Yellow Cars, and he saw no reason why the region couldn't get them back quickly and inexpensively to serve his large district. He decided to put his own sales tax measure on the ballot, modeled on an Atlanta plan that split the sales tax revenue among rail, buses and local road improvements.

In November 1980, as Ronald Reagan claimed the White House, Los Angeles County voters narrowly approved Hahn's sales tax measure with 54 percent in favor. The balanced nature of the plan between bus and rail appeared to work. Although the measure became tied up at the Supreme Court for two more years, Hahn was optimistic that a reborn Pacific Electric system could happen before the 1984 Olympics, scheduled for Los Angeles.

With money now in hand for rail, Hahn lobbied extensively to make sure the first rail line served his district in South Los Angeles. Despite competing needs and potentially better ridership numbers in other corridors, rail transit leaders gave in to the political pressure and approved the first line from downtown to Long Beach along the route of the last Red Car. Hahn envisioned a light rail train (powered by overhead lines at a cheaper cost than "heavy rail" technology with power from a third rail below) identical to the San Diego Tijuana Trolley, a highly successful line that was built cheaply and quickly.

After years of study and legal proceedings, construction on the "Blue Line" began in 1985. But Hahn's dream for a quick and cheap line died as the cost doubled and the reality of modern rail construction set in. Builders had to tear out the old Red Car tracks along the 22-mile route, accommodate the adjacent freight railroad, settle numerous disputes with cities along the way, and build elevated tracks in response to local governments that did not want the trains running at street level through their communities. These unexpected delays contributed to exploding costs.

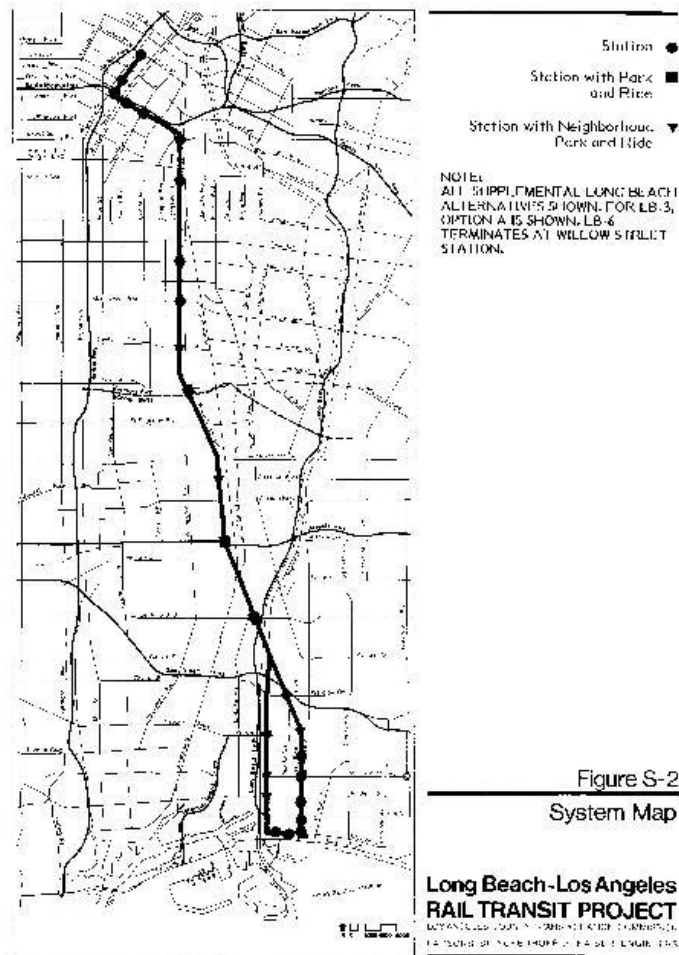


FIGURE 1: Blue Line to Long Beach from Downtown Los Angeles

While Hahn's light rail plans progressed, downtown subway backers lobbied the federal government to fund their project, using Proposition A funds as part of the local match. But the Reagan Administration was openly hostile, with the president expressly singling out the subway as an example of wasteful federal spending. His administration repeatedly attempted to renege on funding commitments to rail, and only because of a Democratically controlled Congress was Los Angeles able to pry federal dollars loose from Reagan's transit agency.

The subway also was held up over disagreements related to the route selection. During the early 1980s, rail planners offered various scenarios for a subway route. The Wilshire corridor represented the most densely populated part of Southern California, and planners wanted the subway system to travel through it from downtown. However, political considerations forced the subway to travel to the San Fernando Valley via Hollywood. Without the support of Valley officials, the subway would have no chance for funding. As a result, transit officials forged an 18.6 mile route that went along Wilshire Boulevard to Fairfax Avenue, and then up Fairfax Avenue to North Hollywood.

This route resulted in opposition from residents concerned that a subway would “change the character” of their neighborhoods. Residents of Hancock Park, a wealthy enclave bordering Wilshire Boulevard, rose up when their low-income neighbors to the south began demanding a station at Crenshaw and Wilshire. Meanwhile, the subway’s turn up Fairfax Avenue threatened to disrupt an ethnic enclave of Jewish residents there. Elected officials, particularly City Councilman Zev Yaroslavsky, State Senator David Roberti and Representative Henry Waxman, expressed concern about the impact on the community.

Then, in March 1985, fate intervened. Methane gas, trapped below the surface at Fairfax and 3rd Street, filled the basement of a Ross Dress For Less store. When a worker punched a time clock, it ignited the methane and caused an enormous explosion that injured 22 people. For Congressman Waxman, the explosion was the “straw that broke the camel’s back.”

Waxman teamed up with Republicans in Congress to withhold federal funding for the entire subway. Publicly, he stated that his primary concern was safety. Even though engineers testified with overwhelming evidence that they could tunnel and operate trains safely through methane gas deposits, Waxman refused to budge. At the last minute, local officials persuaded him to accept a compromise route that would take the subway south of his district.

FIGURE S-1

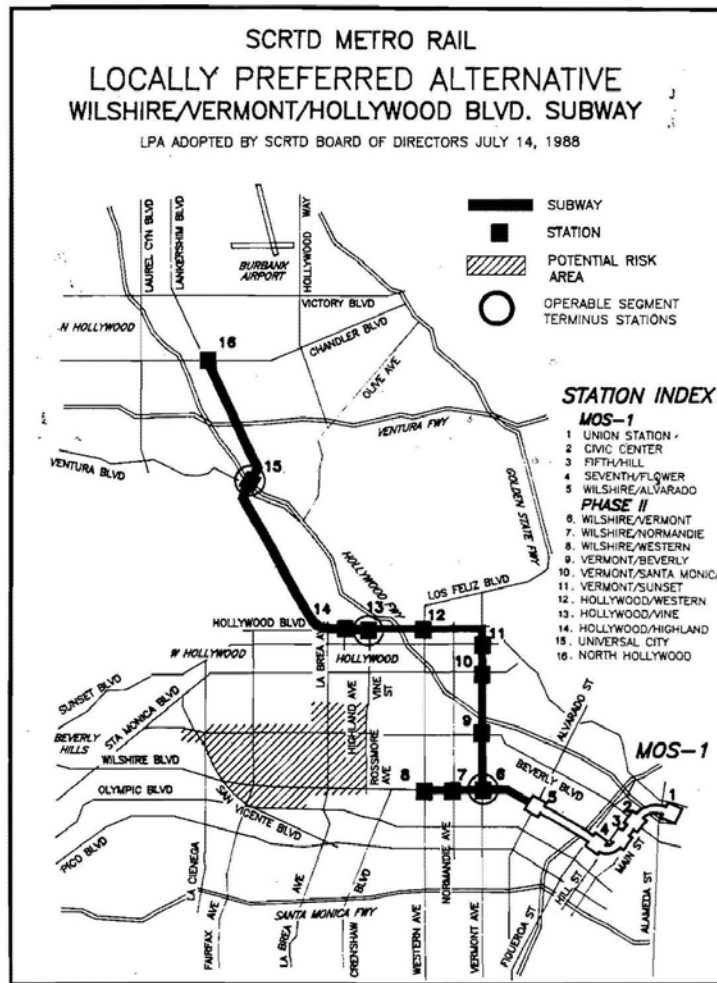


FIGURE 2: Ultimate Subway Alignment from Downtown Los Angeles to North Hollywood

With the Fairfax route blocked, rail planners routed the subway up Vermont Avenue instead. From there, the subway would travel through downtown Hollywood, where merchants had been longstanding supporters, and then under the Santa Monica Mountains to a North Hollywood terminus. After more standoffs with Reagan, construction finally began in 1986 on the first piece of the heavy rail subway, a four-mile section from Union Station to Wilshire and Alvarado.



FIGURE 3: Green Line from Norwalk to Redondo Beach

Source: Los Angeles County Metropolitan Transportation Authority

With the subway now launched, local transit leaders continued to plan an expanded light rail system, which differed from the subway because it featured overhead power that made it cheaper to build. Hoping to extend light rail across various transportation corridors in the county, transit agency leaders decided to build the second route (after the Long Beach line) along the median of the new Century Freeway. Planners proposed the freeway in the late 1960s, but lawsuits and environmental review held it up until finally the federal court allowed the freeway to be built in 1982 with a median transit strip for either buses or rail.

Although it was not a high-priority corridor for rail, transit agency members feared that if they passed up the opportunity, they would never be able to put rail down the freeway again. And having a dedicated right-of-way meant the cost to build it might be cheaper and there would be no homeowners groups to object to the plan. Although the route was hardly high-density, the terminus near the LAX airport brought rail to the burgeoning aerospace industry located just south of the airport.

They approved construction but ran into problems on both ends. The City of Norwalk objected to a rail line traveling through its city, and thus the terminus of the line ended up being under an overpass in the middle of the freeway, two miles short of the eventual Norwalk Metrolink station. At the LAX end, rail planners tried to get the rail line as close to the airport as possible to interface with a planned people-mover system that would circulate around the terminals.

But the Federal Aviation Administration opposed the best rail route because it would pass in front of a runway, and pilots worried it would disrupt the flight path. Meanwhile, the airport was unable to finalize the route of its people mover system and a planned Mag-Lev train that would run to Palmdale. With time pressure and funding running out, transit officials voted to turn the newly named “Green Line” south to the aerospace industry, thus leaving the closest stop over a mile from the airport.

1990 to 2000: Funding Woes and Opposition

In 1990, rail leaders devised another sales tax initiative to add more local revenue for public transit, including rail. The transit agency wanted to raise funds to purchase railroad rights-of-way that lined the county, such as from downtown to Pasadena and along Exposition Boulevard to Santa Monica. The railroads were eager to sell, so local officials arranged to have the railroads fund the sales tax campaign in exchange for a promise that the county would purchase the routes. In 1990, Proposition C, the new sales tax measure, barely passed at 50.4% approval.

Armed with more money, transit leaders promised multiple rail routes. But homeowner opposition in the San Fernando Valley and along the Exposition Corridor in Rancho Park and Cheviot Hills made those rail lines less attractive. The Pasadena Corridor, however, had strong political support, including from Republican Representative David Dreier, who represented a district to the east of Pasadena that he hoped would eventually receive a rail extension. Having Dreier’s bipartisan support made the Pasadena line politically powerful.

But even with Proposition C, money was running out during a national recession that impacted Los Angeles severely. Dwindling funds, coupled with negative reports of subway construction and alleged ethical violations at the region’s transit agencies provoked anger from the voters and politicians. In 1993, the state merged the local transit agencies into the Los Angeles County Metropolitan Transportation Authority (MTA).

In 1994, in the face of the budget crisis, the MTA raised fares on bus riders. At the same time, the agency approved construction of the Pasadena light rail line, allocating to that line roughly the same amount of money to be raised by the bus fare increases. Bus and rail funds came from different funding sources, but the MTA appeared to be dedicating more of its discretionary money to rail rather than bus. An advocacy group for low-income bus riders, the Bus Riders Union (BRU), sued the MTA. The BRU argued that the MTA had violated the civil rights of low-income, primarily minority bus riders by funding rail for more wealthy and white Angelenos over buses.

After preliminary court rulings favored the BRU, congressional representatives began pressuring the MTA to settle the case to avoid a trial. Los Angeles mayor Richard Riordan agreed to a 10-year consent decree (a court-enforced settlement) in 1996 with highly favorable terms for the BRU. The result of the consent decree was that the MTA had to spend a large amount of money to improve bus service with minimal ridership gains, to the point where MTA leaders complained it was inefficient and actually contributing to more traffic. The case was damaging for the MTA politically and financially, and the agency fought enforcement of the consent decree almost every chance it had.

Pasadena rail boosters got their line built anyway. State leaders created a special rail construction authority in 1998 that was outside the budget and purview of the MTA. Work began on the line shortly thereafter. The “Gold Line” opened in 2003 to limited success, due to lower-than-expected ridership and slow travel times. Its terminus at Union Station also prevented riders from accessing the rest of the light rail system without multiple transfers.

Construction Mishaps

Meanwhile, subway construction had been brutal for the MTA. The first segment opened in 1993, allowing outgoing Mayor Tom Bradley to experience the opening of the system he had promised to voters 20 years earlier. But management of the first segment construction had not gone smoothly. The agency built up a backlog of disputes with contractors and had fallen over-budget and behind schedule, while the second leg of the construction to Hollywood was marred by accidents that, while perhaps typical for a big construction project, contributed to the perception that the agency was incompetent. A fire in the rail tunnel underneath the 101 Freeway threatened to collapse the entire freeway, while a giant sinkhole appeared on Hollywood Boulevard due to unstable soil above the tunnel and below the street. In 1993, rail enemies charged the MTA with allowing too-thin tunnel walls by shoddy contractors. Congressional conservatives vowed investigations, and a helpless MTA was unable to explain to the public that the tunnel variations were purposeful and customary in tunnel construction.

The dwindling funds, BRU lawsuit and construction woes had taken their toll. Now-Supervisor Zev Yaroslavsky launched a ballot initiative in 1998 to prevent any sales tax money from funding the subway. It passed overwhelmingly, including in East Los Angeles where the subway was scheduled to go next. Instead, the subway would end after the third segment to North

Hollywood. It opened there in 2000, completing a “Red Line” that ran from downtown to Wilshire and Western as a spur, and up to Hollywood along Vermont and then North Hollywood.

2000-2008: Resurgence

With the last segment of the subway opening in 2000 and the Pasadena Gold Line in 2003, rail construction in Los Angeles was quiet. The Blue Line to Long Beach was the most successful, becoming the most heavily used light rail line in the country. The Green Line was largely a failure. The aerospace industry had collapsed, and the route did not serve a densely-populated area. Worse, its location in the middle of a freeway left its station areas largely unwalkable and unpleasant. The Red Line ridership was decent but not an unqualified success. And because rail planning had been disconnected from land use planning, many of the station areas did not allow for high-density development to maximize walkability and ridership.

Searching for new transit options, Supervisor Yaroslavsky and Mayor Riordan took a trip to Curitiba, Brazil to view that city’s low-cost and clever mass transit solutions. They came back ready to build a “bus rapid transit” line in the San Fernando Valley, which was essentially light rail cars on tires, at one-fifth of the cost. The “Orange Line” dedicated busway opened in 2005 along the right-of-way that planners originally wanted for light rail. It traveled from Canoga Park to the subway station at North Hollywood. Ridership on the line was high and the MTA opened an extension from Canoga Park to the north in 2012.

Then after almost a decade of turmoil, new leadership brought the MTA’s fiscal picture finally under control. CEO Roger Snoble took the lead to bring light rail to the Eastside, where the subway would have gone. With supportive local politicians, the Gold Line Eastside extension began construction in 2004, passing through Little Tokyo and Boyle Heights.

Light rail to Culver City and Santa Monica also became a reality. Despite homeowner opposition, a citizens group called Friends4Expo advocated for light rail along the right of way. By 2006, their efforts helped ensure that construction would begin on the “Expo Line” from downtown to Culver City, with a planned extension to Santa Monica.

With traffic worsening on the Westside, the subway also received renewed support. In 2005, a new mayor took office promising a “subway to the sea.” Antonio Villaraigosa made an extension of the subway down Wilshire a priority, and with a traffic-choked constituency, Representative Waxman finally relented. He agreed to reverse his subway ban, although he was unable to cite any changes in engineering technology that made him comfortable with tunneling in his district now. Political realities had made his ban highly unpopular. Now subway advocates just needed money to extend the line.

Sensing an opportunity, a coalition of environmental groups, downtown business leaders and unions rallied in 2008 to secure funding to expand the mass transit system. They decided to place another sales tax measure on the ballot. Despite an economy in free-fall, the measure won an overwhelming two-thirds majority that November. Improved agency management at the MTA, frustration with traffic, and an emerging market desire for walkable urban communities built around transit stations had propelled a new wave of support for rail construction. The success of Measure R put Los Angeles on its current path to creating a rail boom in the region.

New rail lines soon followed from the passage of Measure R. First, the revenue ensured that the Expo Line would continue to Santa Monica, where the \$925 million, 6.6 mile extension is expected to open in 2016 after its 2012 Culver City opening. The \$4 billion, 9-mile “Purple Line” subway extension down Wilshire can also finally proceed to La Cienega and eventually to Westwood. Initial construction work occurred in 2014, overcoming a lawsuit from Beverly Hills residents objecting to tunneling under Beverly Hills High School.



Meanwhile, the \$2 billion, 8.5-mile Crenshaw line began construction in January 2014, with a planned opening in 2019. Crucially, the line will link the Green Line to the Expo Line, providing a missing north-south connection to parallel the Blue Line to the east, and it will also provide rail access to LAX airport, most likely through an automated “people mover” tram that will

circle the terminals and intersect the Crenshaw Line to the east of the airport. MTA officials also dusted off plans for a light rail downtown connector to link the Blue and Gold Lines.



FIGURE 5: Crenshaw/LAX light rail, intersecting with Green Line to the south and Expo Line to the north

Political favoritism once again emerged, however, with the approval of a Gold Line Foothill extension to Azusa in the San Gabriel Valley. At a cost allocation of \$810 million, the 11-mile extension began construction in 2011, with a projected opening of 2016. A second 12-mile phase from Azusa to Montclair is in the works, with preliminary engineering beginning in 2014. The line mostly travels along the freeway, limiting opportunities for transit-oriented development, and serves low-density areas most suitable for commuting rather than a transit-oriented lifestyle through compact neighborhoods. Yet this region was politically important to include in the rail coalition.

Finally, Metro began pre-construction in 2014 on the \$1.427 billion, 1.9-mile “regional connector” through downtown, to link the two light rail lines (Blue and Gold Lines) currently disconnected except through the heavy-rail subway. Because the rail formats are different, they currently require multiple and inconvenient transfers that slow travelers. The regional connector will remedy that problem by enabling “one-seat rides” to many destinations, boosting ridership across the system. The line will also provide rail to a different areas of downtown. It is expected to open in 2020.



FIGURE 6: Downtown Regional Connector Light Rail line (single line)

Encouraging New Growth Around the Station Areas and Rail Corridors

Metro Rail is still a flawed system, but the recent build-out is putting it on a path toward providing comprehensive rail service for much of the urban core of Los Angeles. The system has yet to serve adequately some of the most densely populated parts of the county, but with

construction underway on crucial lines, that lack of service will be remedied in the coming decades.



Figure 1-2. Existing and Proposed Metro Rail Lines in 2035

FIGURE 7: Present and Planned Metro Rail System

With the ongoing rail transit boom, rail planners now need to improve the land use policies and development opportunities around station areas to boost ridership and create more convenient, rail-oriented neighborhoods in Los Angeles. Unfortunately, city leaders often fail to promote this kind of development, and many residents typically fight it through litigation and referenda. Ultimately, the prevention of this development limits ridership gains and undermines the cost-effectiveness of rail, which is expensive to build, operate and maintain compared with other forms of transit.

Focusing development around rail provides multiple benefits. It allows the region to accommodate new residents and natural population growth without building new subdivisions on open space and worsening traffic and air pollution. It can reduce the high cost of housing by boosting in-town supply, making it easier for businesses to attract and retain talented employees. Finally, rail-accessible development can create convenient, walkable neighborhoods that meet the growing demand among millennials, childless professionals and empty nesters to move “back to the city.”

But politics and economics often conspire to prevent new growth around rail. Because decision-makers located many rail lines in less dense or developable areas to save costs and accommodate powerful interest groups around the region, with lines running in blighted areas or along freeways, too many rail station locations, such as on the Blue or Green Lines, lack

opportunities for new development. Creating a market in these areas requires public support to spark demand and lower developer costs. And in rail-rich areas with high demand for housing, such as Hollywood and soon West L.A., homeowner groups have challenged land-use plans and new proposed projects.

To reverse these historic trends, transit leaders should consider three policy changes. First, they should restrict funding on rail lines or stations that lack a minimum number of houses or jobs located within walking distance, or at least have local plans in place to meet these goals. Second, state and regional governments should provide funding for local plans for rail-oriented growth and help support and maintain the associated infrastructure, such as sidewalks and parks. Finally, state and local governments should help promote well-designed “catalytic” real estate projects in neglected areas to spark revitalization and unlock private investment, such as through revolving loan funds and tax-increment financing.

Speeding and reducing the cost of construction

Another area of concern for Metro Rail is the spiraling cost of building these lines, coupled with the multi-year waits to both plan and build them. As an example, in 1925, Los Angeles opened a downtown subway tunnel (four-fifths of a mile long). After just one year of planning, construction took 18 months at a cost of \$3.5 million (\$47.4 million in today's dollars). But in 2014, after four years of study, the MTA planned to spend over \$1.427 billion to build the similar 1.9-mile “regional connector.” At \$751 million per mile, it's almost a 13-fold price increase from the 1925 project. And the 23.75 months per mile construction rate became 40 months in 2014.

Certainly better safety standards, higher prices for real-estate acquisitions and construction materials, and more advanced construction equipment explain some of the delay. But ultimately these public infrastructure projects, from the San Francisco-Oakland Bay Bridge to Boston's Big Dig, too often seem to suffer from complacent public-sector management and oversight. Developer campaign contributions can shadow the awards process with conflicts of interest, and good project management often seems lacking. And even before the construction phase, planning for these mobility projects can take years with little ultimate benefit.

While MTA should ensure careful transit planning with proper community input, safety and cost-effectiveness, the multiyear processes are often unnecessary and counterproductive. To help expedite these transit projects, the MTA should engage in strict oversight of construction management and awards and ensure no conflicts of interest due to construction-firm campaign contributions, possibly through the creation of more independent construction authorities. The agency should also work with the state legislature to reform state laws to reduce litigation over environmental review of transit projects. State transit leaders should also allow local agencies to prioritize transit infrastructure over automobile traffic without requiring expensive new planning studies. These reforms would help Los Angeles plan and build Metro Rail lines faster and at less expense.

Conclusion

Los Angeles once inspired the world with a glamorous vision of an auto-oriented life. But with a changing market, growing population, worsening traffic and lost open space, the region has begun to reinvent itself with rail-oriented success stories in downtown Los Angeles, Koreatown and North Hollywood, among others. A renewed desire for urban living, unchecked population growth and dwindling natural resources all point to a time of rail resurgence, while homebuyers and renters increasingly seek housing options in communities that feature walkability to services and transit.

But despite the promise and successes of Metro Rail, local leaders should remain focused on the opportunities of and challenges to maximizing rail investment, through improved rail planning and construction and better incentives for rail-oriented growth. Only concerted action on these issues will solidify the region's new path to more livable, convenient and connected neighborhoods around the burgeoning rail network.

CHAPTER 3

A Tale of Two Los Angeleses

William Yu

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If it were a country, Los Angeles County would be the 24th largest economy in the world, larger even than countries like Norway and Poland. L.A. County is also the most populous in the nation. Because of its mammoth size, we can use L.A. as a snapshot of the national and state economies. Like the nation's, L.A.'s residents have a wide range of incomes. Like California's, the economic dichotomy of L.A. is displayed through a wealthy and rising coast and a lagging and desperate inland.

Over the past decade, the rising areas of L.A. have been as prosperous as other vibrant cities, such as Silicon Valley and San Francisco, while the falling areas have been a drag on the L.A. economy as a whole. In the following sections, we begin by showing the First 5 LA/UCLA City Human Capital Index in 2013 for all the major cities in the U.S., then present the CHCI for L.A. County by ZIP code. Next, we highlight the areas of L.A. that demonstrate prosperity and those that indicate decline and illustrate how economic performance is associated with human capital level within L.A. Finally, we discuss the correlation of public education performance and human capital levels in California, examining how changes to the one could improve the other.

The 2013 City Human Capital Index

In 2012, the UCLA Anderson Forecast partnered with First 5 LA to create the First 5 LA/UCLA Anderson Forecast City Human Capital Index (CHCI) to measure and understand the current state of human capital in each metropolitan area and each county across the nation.¹ The CHCI is based mainly on the adult residents' educational attainment in each region.² Figure 1 displays the First 5 LA/UCLA CHCI ranking for the 30 largest cities (metropolitan statistical areas or MSAs) in 2013 calculated based on the 2013 one-year American Community Survey.

By and large, one tenth of the index number represents the average number of quality-adjusted schooling years for adult residents in each of the metropolitan areas. In 2013, the index for L.A. (which includes Los Angeles and Orange Counties) was 139.4, meaning that the average educational attainment of residents was 13.9 years. L.A. ranked 28th among 30 major cities, trailed only by San Antonio and Riverside (including both Riverside and San Bernardino Counties). Washington DC ranked number one with a CHCI of 162. Other leading cities included

¹For details on the First 5 LA organization, go to www.first5la.org.

²We assigned residents with less than a 9th-grade education a human capital number of 5 to reflect their low wage and high unemployment situations, 9th to 12th grade 10 years, residents with a high school diploma 12 years, some college 13 years, associate degree 14 years, bachelor's degrees 19 years (rather than 16 years to reflect the fact of college degree premium), and master's degrees or higher 23 years. The number of adjusted years is then multiplied by 10 to form the index.

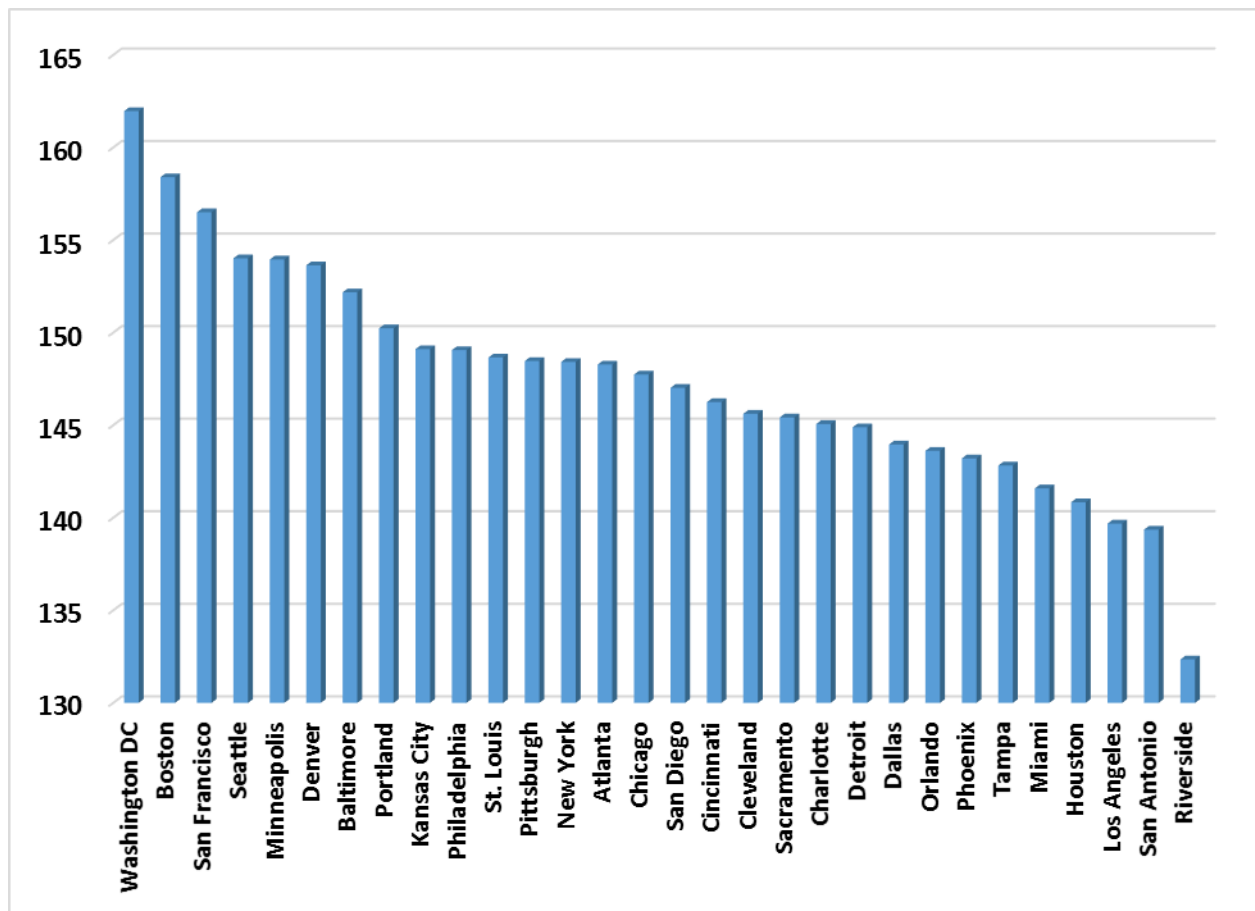
Boston, San Francisco, Seattle, and Minneapolis. The CHCI for the largest 100 cities is shown in Appendix 1. The ranking of CHCI in 2013 is similar to 2012.

The previously stated rankings are based on metropolitan areas. L.A. includes both Los Angeles County and Orange County. To look at human capital at the county level, Figure 2 presents the 2013 CHCI for the 30 largest counties in the U.S. The leading counties in terms of human capital in 2013 were:

- New York County (Manhattan): 168.4
- Middlesex County (Boston): 165.9
- King County (Seattle): 161.2
- Santa Clara County (Silicon Valley): 158.8
- Nassau County (Long Island): 156.2
- Alameda County (San Francisco): 154.2
- Suffolk County (Long Island): 149.1
- and Orange County: 147.1

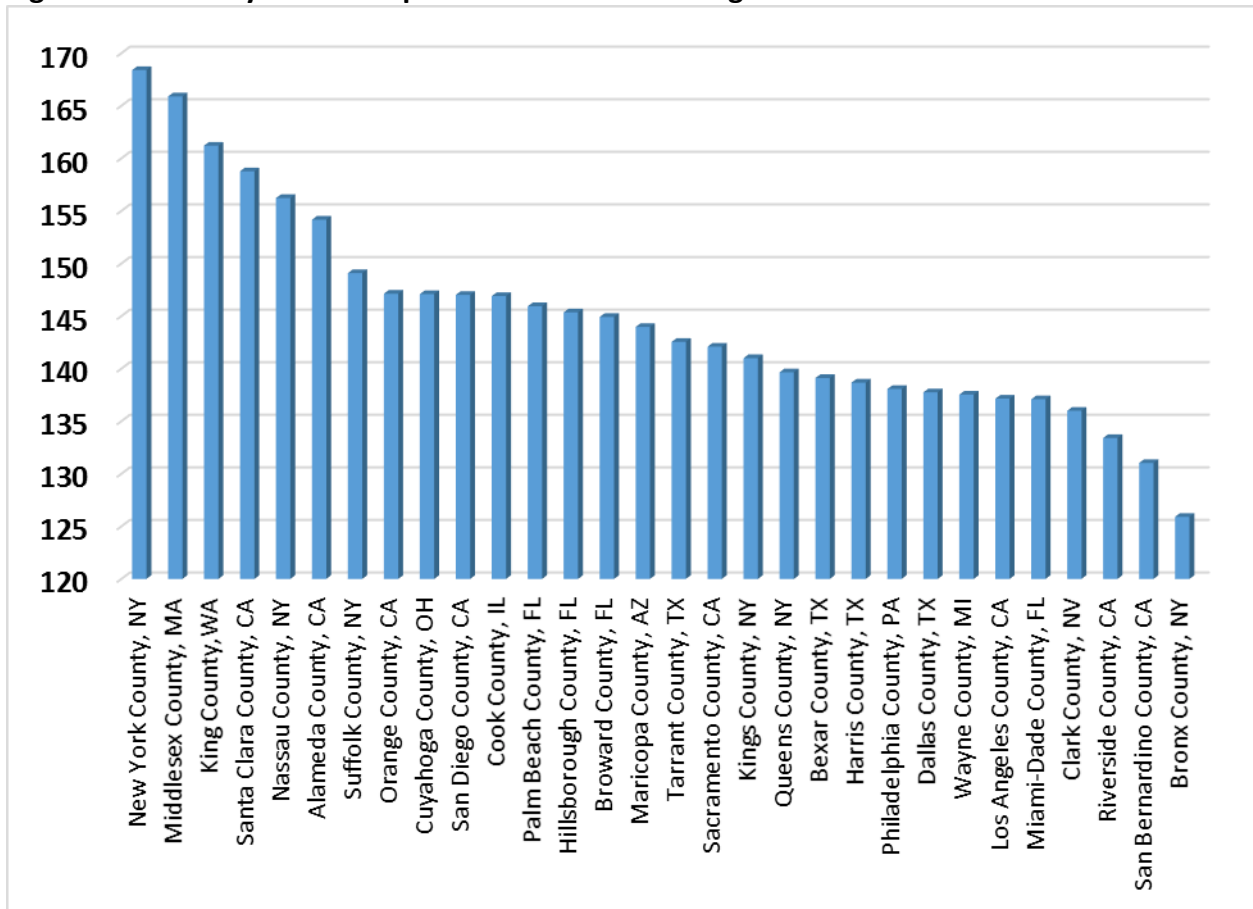
L.A. County's CHCI was 137.2 in 2013. L.A. County has a lower level of human capital than the L.A. metro area as a whole, while Orange County has a higher level. Among the 30 largest counties, L.A. ranked 25th in human capital, followed by Miami County (FL), Clark County (Las Vegas), Riverside County (CA), San Bernardino County (CA), and Bronx County (NY). L.A.'s ranking dropped from 20th in 2012 to 25th in 2013 among major counties. In summary, L.A.'s human capital in 2013 is lagging behind other major cities and counties.

Figure 1. 2013 City Human Capital Index for the 30 Largest Metros in the U.S.



Source: Author's calculation based on the 1-year American Community Survey, 2013

Figure 2. 2013 City Human Capital Index for the 30 Largest Counties in the U.S.



Source: Author's calculation based on the 1-year American Community Survey, 2013

The City Human Capital Index in Los Angeles by ZIP Code

Using the 2008 to 2012 5-year American Community Survey (ACS), the mid-year being 2010, we will be able to calculate the latest CHCI by ZIP code in L.A. County. Table 2 displays the top 20 and the bottom 20 ZIP codes in terms of their CHCI. The ZIP code with the highest average CHCI is 90402 (Santa Monica) with a CHCI of 192, followed by 90272 (Pacific Highlands), and 90077 (Bel Air). On the other hand, the ZIP codes with the lowest human capital are 90270 (Maywood), 90001 (Florence-Graham) and 90011 (South Central L.A.) with staggeringly low CHCI numbers of 91 to 99, which indicates the average resident here only attained a middle school level education.

Table 2. The 2010 City Human Capital Index Top 20 and Bottom 20 ZIP Codes in L.A.

Rank	Zip Code	Area name	CHCI	Population	Rank	Zip Code	Area name	CHCI	Population
1	90402	Santa Monica	192	12,351	266	91340	San Fernando	109	35,207
2	90272	Pacific Highlands	191	22,893	267	90221	East Compton	109	51,350
3	90077	Bel Air	191	8,262	268	91331	Pacoima	109	96,965
4	90049	Brentwood	188	36,107	269	90280	South Gate	108	94,703
5	90094	Playa Vista	188	5,567	270	90037	South Central L.A.	108	60,867
6	90263	Malibu	187	1,847	271	91733	South El Monte	106	43,902
7	91108	San Marino	186	13,297	272	90262	Lynwood	105	69,734
8	90274	Palos Verdes Estates	186	25,387	273	90033	Boyle Heights	105	49,048
9	90403	Santa Monica	185	24,286	274	90201	Bell	105	101,647
10	91105	Pasadena	185	10,891	275	90063	City Terrace	105	53,994
11	90266	Manhattan Beach	185	35,226	276	90255	Huntington Park	104	75,961
12	91011	La Canada-Flintridge	184	20,468	277	90022	Compton	103	68,657
13	90024	Westwood	184	50,269	278	90058	Vernon	103	3,289
14	90254	Hermosa Beach	182	19,535	279	90304	Lennox	103	27,198
15	90212	Beverly Hills	181	12,306	280	90023	East L.A.	103	45,663
16	90275	Pancho Palos Verdes	181	41,903	281	90002	Watts	101	48,613
17	90292	Marina del Rey	181	22,350	282	90003	South Central L.A.	101	67,226
18	90293	Playa del Rey	178	12,129	283	90270	Maywood	99	27,443
19	91302	Calabasas	178	24,910	284	90001	Florence-Graham	95	54,480
20	91030	South Pasadena	178	25,603	285	90011	South Central L.A.	91	100,671

Source: Author's calculation based on the 5-year American Community Survey, 2008-2012.

The CHCI high-tier zones represent a prosperous and vibrant L.A. as shown in Figure 3. Note that this prosperous L.A. has a population of 2.2 million with an average CHCI of 170. In other words, rising L.A. has a higher human capital than any of the other major competitive MSAs in the nation, including Washington DC (2013 CHCI: 162, population: 6 million), Boston (CHCI: 158, population: 4.7 million), Silicon Valley (CHCI: 158, population: 1.9 million), Minneapolis (CHCI: 154, population: 3.5 million), and San Francisco (CHCI: 157, population: 4.5 million). Prosperous

L.A. also has a higher CHCI than other leading major counties, such as New York County (CHCI: 168, population: 1.6 million) and Middlesex County MA (CHCI: 166, population: 1.6 million). In short, prosperous L.A. is the most competitive major economic region in the U.S. in terms of its human capital.

Figure 3. Prosperous L.A. Based on 2010 City Human Capital Index (Top 1/3)



Source: Author's calculation based on the 5-year American Community Survey, 2008-2012.

In contrast, Figure 4 displays the lagging and struggling portions of L.A. This dark-colored area has a population of 3.2 million and a gloomy CHCI of 113. If it were an independent metropolitan area, it would be the worst among the nation's 508 metro and micro areas in 2013. The metro with the lowest CHCI is McAllen, TX (2011 CHCI: 116, population: 0.8 million).

Figure 4. Lagging L.A. Based on 2010 City Human Capital Index (Bottom 1/3)



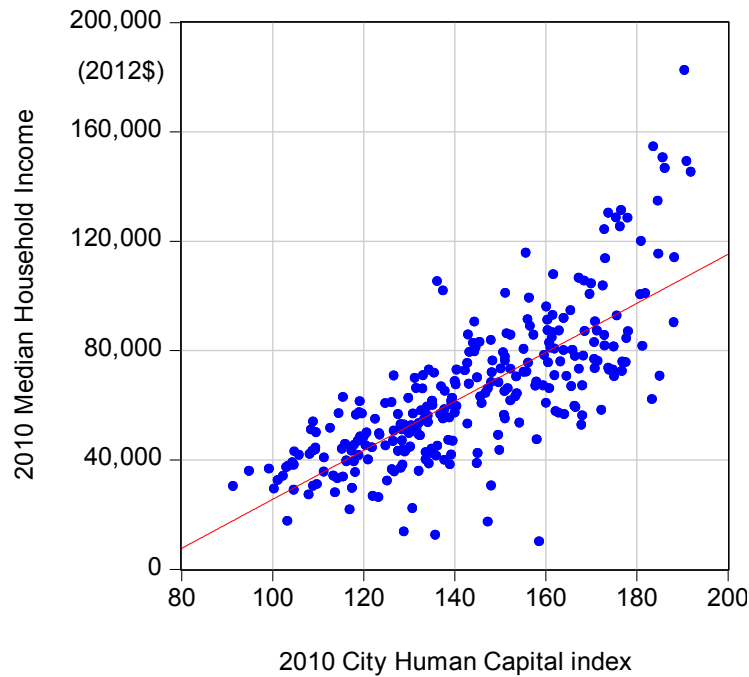
Source: Author's calculation based on the 5-year American Community Survey, 2008-2012.

The Association Between the CHCI and Economic Activities in Los Angeles

The inconvenient fact for the L.A. economy is that its job creation and income growth over the past two decades have been falling behind other major cities. We suggest that one of the main reasons is the low level of L.A.'s human capital as a whole. Are the CHCI and economic performance correlated based on what we have found at the ZIP code level in L.A. County?

Figure 5 shows the correlation between the 2010 CHCI and the 2010 median household income of 285 ZIP codes in L.A. County. We can see a very strong association between the human capital level and the household income for the ZIP codes of L.A. With a change of CHCI from 92 to 192, we can predict the median household income will change dramatically from \$15,000 to \$120,000.

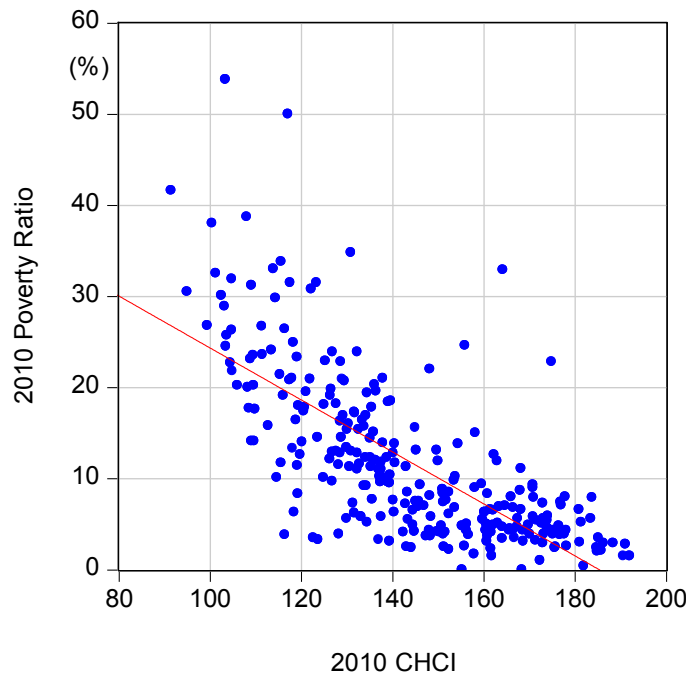
Figure 5. The Correlation Between the 2010 CHCI and the Median Household Income of Los Angeles County ZIP Codes



Source: 5-year American Community Survey 2008-2012

Figure 6 shows the correlation between the CHCI and the percentage of families living under the poverty line for 285 ZIP codes in L.A. County in 2010. We find that the human capital level is negatively related to the poverty ratio for each ZIP code in L.A. With a change of CHCI from 92 to 192, we can predict that the poverty ratio will decline from 30% to 0%.

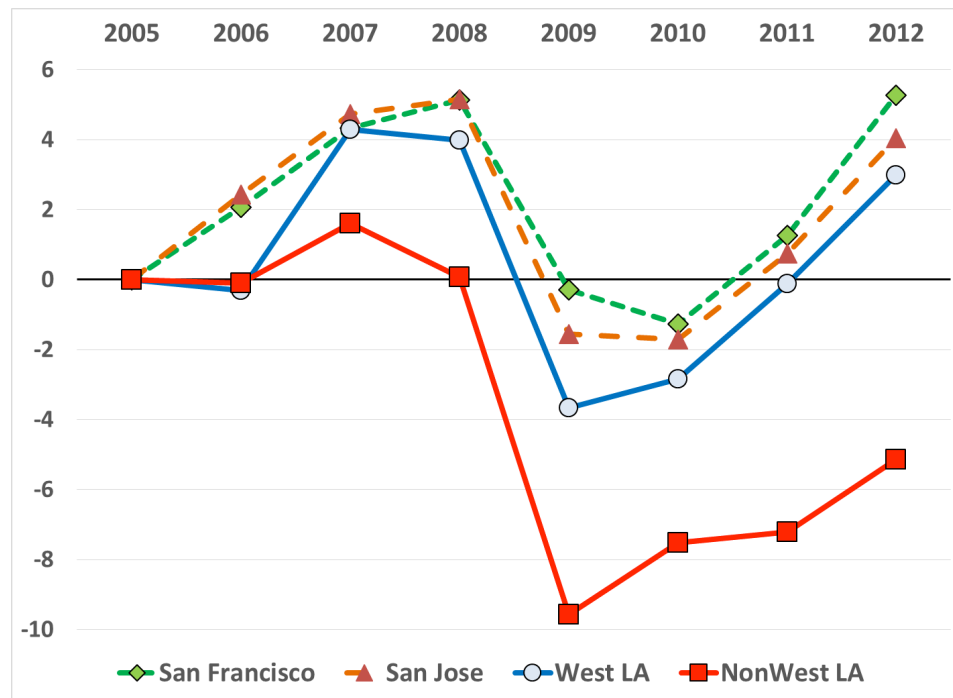
Figure 6. The Correlation Between the 2010 CHCI and the Poverty Ratio of Los Angeles County ZIP Codes



Source: 5-year American Community Survey 2008-2012

In terms of job creation, we also see the dichotomy. We divide L.A. County into West L.A. and the rest of L.A., where West L.A. includes areas such as Silicon Beach. West L.A. has a population of 932,000 and a CHCI of 174. Figure 7 displays a tale of two cities in terms of job growth. From 2005 to 2012, West L.A. had a payroll job growth of 3% while the rest of L.A. took a 5.1% hit in job loss. West L.A., with its high human capital, has seen job growth and high incomes like other cities with high human capital (San Jose, San Francisco, Seattle, etc.).

Figure 7. Total Payroll Employment Percentage Change from 2005 for Some Selected Regions in California



Source: California Employment Development Department

Human Capital and Public Education

From the theory and evidence of economics, we know that high human capital of a country and a city is not only correlated to better economic performance but also a cause. Therefore, the question is: how can we enhance L.A.'s relatively low level of human capital? There are two direct solutions. First, encourage highly educated people to move to L.A. from other cities or abroad. Second, improve L.A.'s public schools in order to build high human capital in the next generation. The second solution will also help achieve the first solution because good school districts will attract more educated people who are greatly concerned with their children's education.

In the U.S., it is well known that public schools in low-income neighborhoods have not been doing an adequate job in terms of student academic performance. The problem is particularly serious in the City of Los Angeles. How can we explain the stunning discrepancies in public school performance within and across cities?

We know public schools in high-income areas tend to do much better than those in low-income areas. The first obvious reason is that in the high-income neighborhood, residents tend to be

more educated and therefore expect their children to have the same, if not more, educational opportunities. In a resource-rich teaching/learning environment and positive educational outcomes, more educated parents tend to move to this high human capital area, perpetuating the cycle of success.

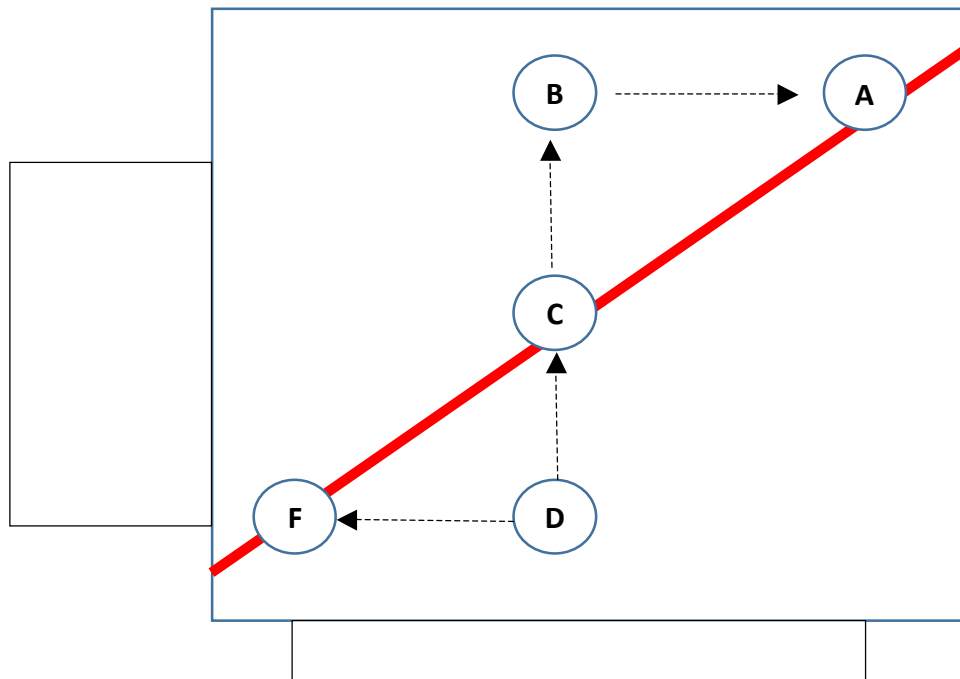
On the other hand, in low-income neighborhoods, residents are more likely to be poor, unemployed and less educated. Therefore, their children's education may be competing with other, more immediate socio-economic pressures. And, with fewer resources, teaching can be harder and more frustrating. Negative outcomes can scare educated parents away from this low human capital area, perpetuating a cycle of failure.

The next question is: beyond the human capital of local adult residents, are there any other factors that could explain a student's learning outcomes? Is it possible to turn vicious cycles into virtuous cycles? Note that the First 5 LA/UCLA CHCI is calculated mainly based on the quantity of education attained by adult residents, adjusted by its productivity. How can CHCI, based on adult residents' human capital, explain the outcome of public education?

Figure 8 explains the roadmap of how a city should improve its public education and human capital. The upward-sloping solid line represents the positive relationship between a city's adult human capital (current generation) and their children's learning outcomes as mentioned above about perpetuation of virtuous and vicious cycles. It is natural to conjecture that high public school outcomes today will lead to high city human capital in the future as students grow up into adult residents. If a city is underperforming, then its position is currently located at underachieving Point D (below the predicted solid line). The first step is to improve its public education outcome to Point C. If a city fails to improve, when these underachieved children grow up, the city's human capital will further decline to Point F.

Point C will be an equilibrium point. Without any effort, the city's education level is predicted to be the same from generation to generation. In order to achieve a higher human capital level for the city's future, the necessary step is to outperform the destined result of Point C and move up to Point B. Over time, when the next generation grows up and becomes the main workforce of the city, it will naturally improve the city's human capital level to Point A: a new equilibrium with high human capital and good school outcomes.

Figure 8. The Dynamic Relationship of City Human Capital and Its Public Education Outcome in the Long Run



CHCI and Academic Performance Index (API) in California

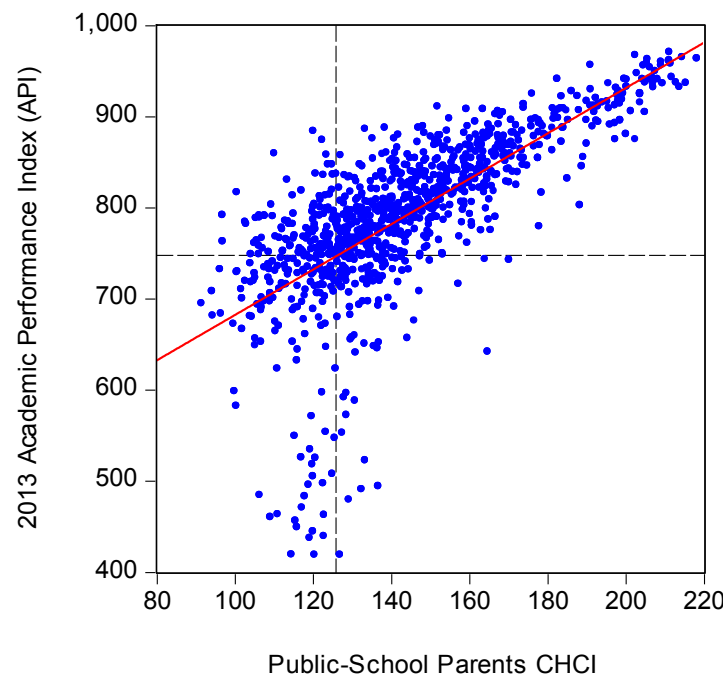
In this section we explore the correlation between the CHCI and public education outcome for 983 school district and 9,199 public schools in California. We use a common measurement of K-12 students' academic performance—Academic Performance Index (API), which all California public school students have been required to take.

We calculate CHCI from a more direct source: the education attainment of students' parents. In California, schools and districts will ask students to report their parents' education information. We use the same method of calculating CHCI to develop this public-school parents' (PSP) CHCI for each school and district. In Figure 9, each dot represents a school district in California with its corresponding PSP CHCI and API. We see a clear upward sloping regression line, which means the PSP CHCI predicts the student's learning outcome in that district.

In other words, by and large, the main reason for the disparity between student performance by school district is the disparity in parents' education level. Note that L.A. Unified School District's (LAUSD) PSP CHCI is 125.8 and its API is 748. (See the intersection of the dashed lines

in Figure 9.) That is to say, given its PSP CHCI, LAUSD's performance is just what is expected, no better no worse.

Figure 9. The Correlation between Public-School Parents' CHCI and Students' API among 983 School Districts in California



Sources: California Department of Education and Anderson Forecast

However, in Figure 9, we see some deviation of each district's performance from its predicted line according to CHCI. What other factors could explain these deviations? In addition to the CHCI, we consider the following factors based on our prior hypothesis: (1) The percentage of enrolled students who are socioeconomically disadvantaged or in poverty for each school. These students will get a free or reduced price for meals. (2) Whether the school is located in L.A. County (if so 1; if not 0). There are 78 districts (2,163 public schools) in L.A. County. (3) The percentages of enrollments in elementary schools and high schools, (middle schools are the benchmark).

$$\begin{array}{ccccccccc}
 \text{API} = & 463 & + & 2.04 \times \text{CHCI} & - & 0.34 \times \text{Poverty} & + & 28 \times \text{LA County} & + & 1.26 \times \text{Elementary} & - & 0.25 \times \text{High} \\
 & (tstat) & (13) & & (-2.2) & & (6.2) & & (3.9) & & (-1.2) \\
 \text{Adjusted } R \text{ Squared} : & 0.64 & & \text{Observations} : & 983
 \end{array}$$

The regression results are presented above. All the factors are statistically significant, except for the high school percentage. Let's explain the results in plain English. First, other things being

equal, if the school's PSP CHCI improves by 10, meaning that the parents have one more schooling year of education on average, we predict the school's API will increase by 20 points. The CHCI is not only statistically but also economically significant.

Second, after controlling PSP CHCI, we find the influence of poverty from a student's family is less important than a parent's education level in both economical and statistical ways. Third, other things being equal, API is better in schools in L.A. County than other schools by 28 points! In other words, as a whole L.A. County is doing better than its expected level (solid line, Fig. 8).

Next, let's take a look at the detailed relationship of API and PSP CHCI for individual schools as shown in Figure 10. Again, we can get an evident association between PSP CHCI and its API. Note that in addition to some normal deviations of dots from the regression line, there are a certain number of schools, located in the southwest corner of the figure, which are not explained well by CHCI. So here we add one more variable: an alternative school dummy (if so 1, if not 0) to see if it can explain this. Alternative schools are serving those highly mobile and at-risk students based on California's Alternative Schools Accountability Model (ASAM). Figure 11 presents the same correlation excluding those alternative schools. As a result, we see fewer dots in the southwest corner.

Figure 10. The Correlation between Public-School Parents' CHCI and Students' API among 9199 Public Schools in California

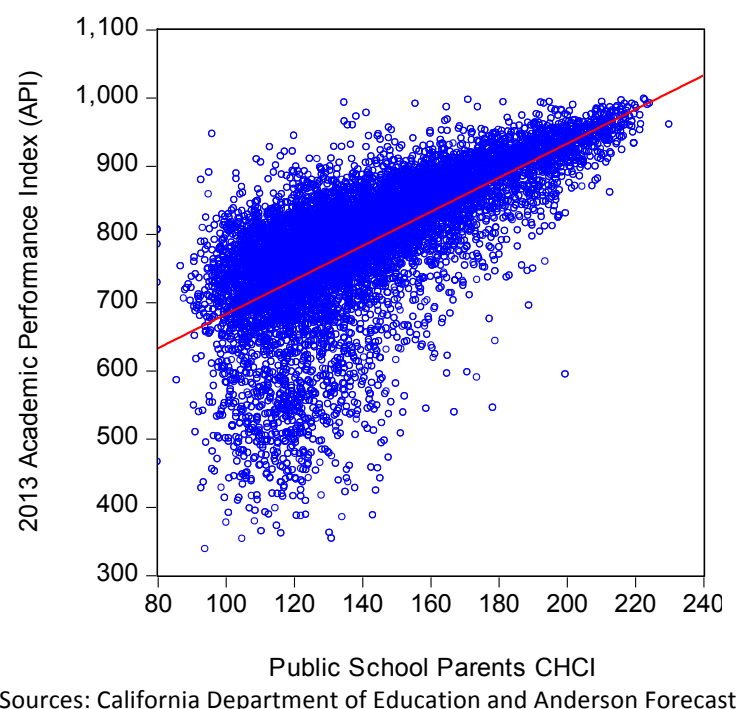
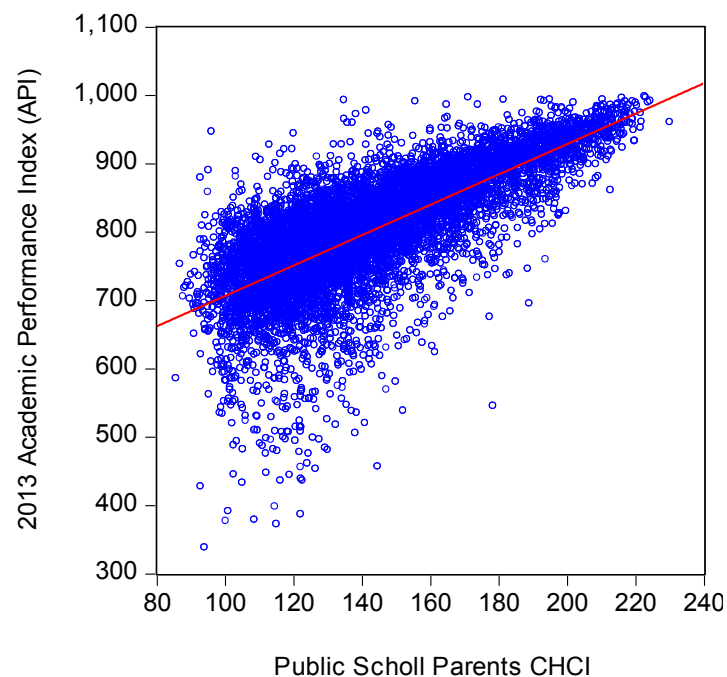


Figure 11. The Correlation between Public-School Parents' CHCI and Students' API among 8963 Public Non-alternative Schools in California



Sources: California Department of Education and Anderson Forecast

$$API = 522 + 2.01 \times CHCI - .19 \times Poverty - 142 \times Alternative + 16 \times LA\ County + .18 \times Elementary - .57 \times High$$

(tstat) (23)
(-2.3)
(-29)
(7.9)
(11)
- (20)

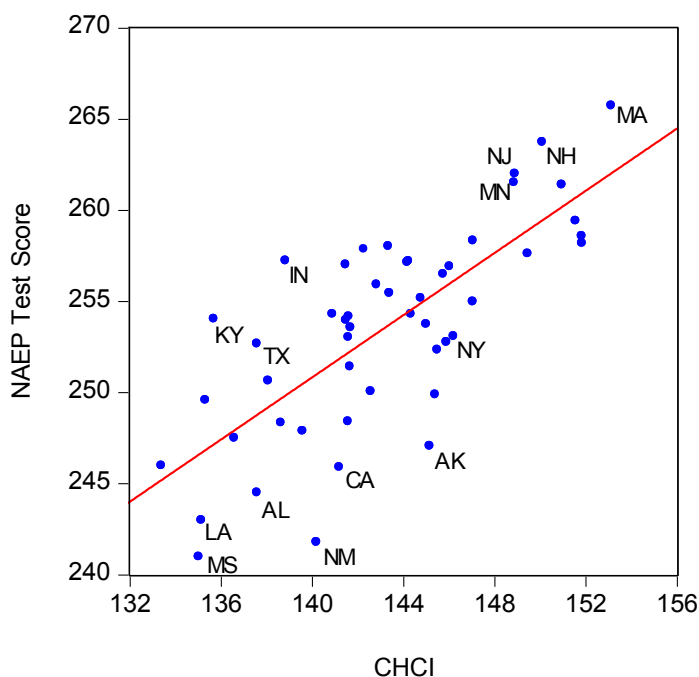
Adjusted R Squared : 0.72
Observations : 9199

CHCI is still the most important factor that determines schools' API. Not only is CHCI a direct indicator of parents' education level, but it is also a good indicator of families' income and other socioeconomic factors as shown in Figures 5 and 6. Poverty is statistically significant but still not economically significant. Why? One of the reasons could be that the factor is not informative enough because the majority of students fall into the category for free or reduced fee meals (California: 59%, L.A. County: 67%, and LAUSD: 79%). It is not surprising to see those students performing worse than students at alternative schools (142 points lower). This factor could explain those dots in the southwest corner in Figure 10. Again, other things being equal, schools in L.A. County are performing better than its predicted level. If we add LAUSD as a factor in the regression, we find no evidence that LAUSD is either doing better or worse than it is expected to be after controlling relative variables.

CHCI and National Assessment of Educational Progress (NAEP) Among 50 States

The solid regression line in Figures 9 to 11 is a benchmark using the whole California public schools' data. Is it a good benchmark for the nation? The answer is unfortunately NO. Given its CHCI as an input, California's public school outcomes are falling below the national predicted level. Figure 12 presents the correlation between a state's average CHCI and its average National Assessment of Educational Progress (NAEP) test score across 50 states. The solid line indicates a positive relationship between a state's human capital level and its student performance. For those states which are below the line, they are underperforming compared to the national average. And California is one of them. Given California's CHCI of 141.2, its NAEP is 246. However, Texas has a lower CHCI of 137.6 but its NAEP of 252.6 is higher than California's.

Figure 12. The Correlation between CHCI and NAEP Test Score among 50 States



Sources: Anderson Forecast and National Center for Education Statistics

That is to say, for those cities, school districts and schools, who are currently on the predicted line or even above in Figures 9 to 11, including LAUSD and all public schools in L.A. County, there is no time to be complacent or celebrating. California as a state is underperforming compared to other states in the U.S., not to mention other nations. Without improving the dire public education performance in L.A. and the rest of California, we will see areas with low human capital continuing to have poor economic outcomes from one generation to the next.

And, if nothing changes, the bifurcated picture of L.A. and California will remain the same or deteriorate in the future.

Conclusions

Several key points emerge from this chapter:

- First, L.A.'s human capital as a whole falls behind other major cities. By dividing the City Human Capital Index of L.A. ZIP codes into three tiers and labeling the top one third of ZIP codes as prosperous L.A. and the bottom one third as faltering L.A., we see a tale of two cities within one. Rising L.A. leads the country in human capital while falling L.A. comes in last.
- Second, within L.A. County, we find that regions with high human capital can predict seeing higher income levels and lower poverty ratios while regions with low human capital can predict just the opposite.
- Third, in the long run, it is imperative for L.A. as well as the rest of California to enhance its human capital by improving its public education because California's public education is underperforming given its human capital level.

Finally, the most significant cause of the economic inequality in L.A. is its stunning disparity in human capital. If we want to achieve long-term shared prosperity and reduce the substantial income gap in L.A., the key is to improve human capital levels in the lagging regions. A fundamental investment into the education of L.A.'s children will yield positive results in time if undertaken with dedication and patience.

Appendix 1. The 2013 First 5 LA/UCLA City Human Capital Index for 100 Largest Metropolitan Areas in the U.S.

	2013 100 Largest Metro Areas Ranking	CHCI	Population
1	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	162.0	5,950,214
2	Boston-Cambridge-Newton, MA-NH Metro Area	158.4	4,684,299
3	Madison, WI Metro Area	158.1	627,431
4	San Jose-Sunnyvale-Santa Clara, CA Metro Area	157.8	1,919,641
5	Bridgeport-Stamford-Norwalk, CT Metro Area	157.6	939,904
6	San Francisco-Oakland-Hayward, CA Metro Area	156.5	4,516,276
7	Raleigh, NC Metro Area	156.3	1,214,516
8	Seattle-Tacoma-Bellevue, WA Metro Area	154.0	3,610,105
9	Minneapolis-St. Paul-Bloomington, MN-WI Metro Area	154.0	3,459,146
10	Denver-Aurora-Lakewood, CO Metro Area	153.6	2,697,476
11	Provo-Orem, UT Metro Area	153.6	562,338
12	Austin-Round Rock, TX Metro Area	153.0	1,883,051
13	Colorado Springs, CO Metro Area	152.8	678,319
14	Baltimore-Columbia-Towson, MD Metro Area	152.2	2,770,738
15	Hartford-West Hartford-East Hartford, CT Metro Area	151.5	1,215,211
16	Albany-Schenectady-Troy, NY Metro Area	151.3	877,905
17	Des Moines-West Des Moines, IA Metro Area	150.3	599,789
18	Portland-Vancouver-Hillsboro, OR-WA Metro Area	150.2	2,315,089
19	Kansas City, MO-KS Metro Area	149.1	2,052,048
20	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area	149.1	6,034,678
21	Rochester, NY Metro Area	149.1	1,083,278
22	St. Louis, MO-IL Metro Area	148.7	2,799,609
23	New Haven-Milford, CT Metro Area	148.6	862,287
24	Pittsburgh, PA Metro Area	148.5	2,360,867
25	New York-Newark-Jersey City, NY-NJ-PA Metro Area	148.4	19,949,502
26	Columbus, OH Metro Area	148.4	1,967,066
27	Atlanta-Sandy Springs-Roswell, GA Metro Area	148.3	5,524,693
28	Charleston-North Charleston, SC Metro Area	148.2	712,220
29	Omaha-Council Bluffs, NE-IA Metro Area	148.2	895,999
30	Urban Honolulu, HI Metro Area	148.0	983,429
31	Worcester, MA-CT Metro Area	147.9	926,710
32	Milwaukee-Waukesha-West Allis, WI Metro Area	147.8	1,569,659
33	Chicago-Naperville-Elgin, IL-IN-WI Metro Area	147.7	9,537,040
34	Buffalo-Cheektowaga-Niagara Falls, NY Metro Area	147.3	1,134,115
35	San Diego-Carlsbad, CA Metro Area	147.0	3,211,252
36	Salt Lake City, UT Metro Area	147.0	1,140,483
37	Syracuse, NY Metro Area	147.0	661,934
38	Richmond, VA Metro Area	146.6	1,248,513
39	Ogden-Clearfield, UT Metro Area	146.3	621,853
40	Virginia Beach-Norfolk-Newport News, VA-NC Metro Area	146.3	1,706,816
41	Cincinnati, OH-KY-IN Metro Area	146.3	2,134,109
42	North Port-Sarasota-Bradenton, FL Metro Area	146.1	732,535
43	Nashville-Davidson--Murfreesboro--Franklin, TN Metro Area	146.1	1,757,424
44	Columbia, SC Metro Area	146.0	793,360
45	Boise City, ID Metro Area	145.8	649,321
46	Indianapolis-Carmel-Anderson, IN Metro Area	145.8	1,953,613
47	Cleveland-Elyria, OH Metro Area	145.6	2,064,725
48	Grand Rapids-Wyoming, MI Metro Area	145.6	1,016,603
49	Sacramento--Roseville--Arden-Arcade, CA Metro Area	145.4	2,215,770
50	Albuquerque, NM Metro Area	145.3	901,932

	2013 100 Largest Metro Areas Ranking (Continued)	CHCI	Population
51	Tucson, AZ Metro Area	145.2	996,554
52	Harrisburg-Carlisle, PA Metro Area	145.2	557,711
53	Akron, OH Metro Area	145.1	705,686
54	Charlotte-Concord-Gastonia, NC-SC Metro Area	145.1	2,335,358
55	Detroit-Warren-Dearborn, MI Metro Area	144.9	4,294,983
56	Jacksonville, FL Metro Area	144.4	1,394,624
57	Jackson, MS Metro Area	144.3	578,361
58	Palm Bay-Melbourne-Titusville, FL Metro Area	144.2	550,823
59	Dallas-Fort Worth-Arlington, TX Metro Area	144.0	6,812,373
60	Spokane-Spokane Valley, WA Metro Area	143.9	535,189
61	Dayton, OH Metro Area	143.9	802,489
62	Wichita, KS Metro Area	143.9	637,989
63	Birmingham-Hoover, AL Metro Area	143.9	1,140,300
64	Springfield, MA Metro Area	143.7	626,915
65	Orlando-Kissimmee-Sanford, FL Metro Area	143.6	2,267,846
66	Little Rock-North Little Rock-Conway, AR Metro Area	143.5	723,743
67	Phoenix-Mesa-Scottsdale, AZ Metro Area	143.2	4,398,762
68	Tampa-St. Petersburg-Clearwater, FL Metro Area	142.8	2,870,569
69	Allentown-Bethlehem-Easton, PA-NJ Metro Area	142.7	827,048
70	Oxnard-Thousand Oaks-Ventura, CA Metro Area	142.6	839,620
71	Louisville/Jefferson County, KY-IN Metro Area	142.5	1,262,928
72	Oklahoma City, OK Metro Area	142.3	1,319,677
73	Providence-Warwick, RI-MA Metro Area	142.2	1,604,291
74	Knoxville, TN Metro Area	141.9	852,147
75	Miami-Fort Lauderdale-West Palm Beach, FL Metro Area	141.6	5,828,191
76	Toledo, OH Metro Area	141.6	608,145
77	Tulsa, OK Metro Area	141.4	961,321
78	Baton Rouge, LA Metro Area	141.2	820,159
79	Greensboro-High Point, NC Metro Area	141.2	741,065
80	Memphis, TN-MS-AR Metro Area	141.0	1,343,850
81	Houston-The Woodlands-Sugar Land, TX Metro Area	140.8	6,313,158
82	New Orleans-Metairie, LA Metro Area	140.8	1,240,977
83	Greenville-Anderson-Mauldin, SC Metro Area	140.8	850,965
84	Cape Coral-Fort Myers, FL Metro Area	140.1	661,115
85	Scranton--Wilkes-Barre--Hazleton, PA Metro Area	139.8	562,037
86	Los Angeles-Long Beach-Anaheim, CA Metro Area	139.7	13,131,431
87	Winston-Salem, NC Metro Area	139.6	650,820
88	Augusta-Richmond County, GA-SC Metro Area	139.4	581,551
89	San Antonio-New Braunfels, TX Metro Area	139.4	2,277,516
90	Deltona-Daytona Beach-Ormond Beach, FL Metro Area	138.8	600,756
91	Chattanooga, TN-GA Metro Area	138.6	540,387
92	Youngstown-Warren-Boardman, OH-PA Metro Area	136.6	555,506
93	Las Vegas-Henderson-Paradise, NV Metro Area	136.0	2,027,868
94	Lakeland-Winter Haven, FL Metro Area	133.0	623,009
95	Riverside-San Bernardino-Ontario, CA Metro Area	132.4	4,380,878
96	El Paso, TX Metro Area	127.9	831,935
97	Stockton-Lodi, CA Metro Area	127.8	704,379
98	Fresno, CA Metro Area	127.8	955,272
99	Bakersfield, CA Metro Area	123.5	864,124
100	McAllen-Edinburg-Mission, TX Metro Area	116.2	815,996

Source: Author's calculation based on the 1-year American Community Survey, 2013.

CHAPTER 4

Market Match: Fresh Incentives for Older Adults in Los Angeles County

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Today, there are 516,000 older adults (persons ages 65 and older) in Los Angeles County who struggle to afford their basic living expenses.^{1,2} By 2030, the number of older adults in Los Angeles County is expected to double, with nearly one in four persons projected to be over 60 years old.³ As a result of this population shift, local service providers and policymakers are beginning to address a growing need for preventive health and nutrition services for older adults.

California presents a unique policy environment for older adults in need of nutrition assistance, as it is the only state in which recipients of the poverty assistance program Supplemental Social Security (SSI) cannot simultaneously qualify for the Federal Supplemental Nutrition Assistance Program (SNAP) benefits, which are meant to cover food costs. While a portion of the total SSI payment is intended for food purchase, the overall figure has not been adjusted to reflect current costs of living.^{4,5}

California's low-income older adults face mounting challenges to afford healthy foods, with a \$9,965 maximum annual SSI payment and a median annual Social Security income of only \$12,608.⁶ While Social Security is designed to serve as a foundation on which recipients add pension payments, retirement accounts, and other savings, an estimated 75 percent of older adults rely on Social Security as most or all of their income.⁷ Thus, the majority of older adults do not earn the minimum \$24,359 needed for a single, older adult renter to live in Los Angeles County.⁸ Fruits and vegetables, nutrient-dense foods, are associated with a decreased risk for diet-related illnesses and certain chronic conditions.⁹⁻¹¹ However, such foods may become luxury items under a constricted budget.¹²⁻¹⁵

One organization working to address this public health issue is the Los Angeles-based nonprofit, Hunger Action Los Angeles (HALA). Since 2010, HALA has been one of 17 community-based organizations that administer the California statewide farmers' market incentive program called Market Match. This program provides vouchers to low-income consumers for the purchase of fresh fruits and vegetables at over 150 participating farmers' markets. Under the Market Match program, participants receive a voucher to spend on fresh produce at a participating farmers' market. With a dollar-for-dollar match up to \$10, a participant who spends \$10 at the farmers' market can obtain an additional \$10 from HALA, resulting in a total of \$20 for fresh produce to be used that day.

Most farmers' market incentive programs across the country restrict eligibility to recipients of SNAP and the Women, Infant and Children (WIC) nutrition assistance program. Recognizing an unmet need, HALA extended its eligibility criteria. The requirements now include recipients of

SSI and low-income older adults who receive Social Security, as a part of a demonstration project in Los Angeles in 2012.

Since HALA launched this demonstration, over 800 older adults have enrolled. Due to the growing popularity of this program among older adults, we sought to understand the impact and reach of this approach. Specifically, we examined whether the Market Match program increased participants' purchasing and consumption levels of fresh fruits and vegetables, and, if so, we explored ways to expand the program to reach additional, eligible older adults within the organization's current resources. This chapter highlights our findings and provides recommendations to increase Market Match's reach to include additional older adults in need in Los Angeles County.

Research Approach

Our evaluation sought to: 1) identify key benefits and challenges of the Market Match program and 2) generate a conceptual framework to set the stage for program growth and future evaluations.

To begin, we wanted to determine the current landscape of programs and policies affecting older adult nutrition in Los Angeles County. A literature review, along with interviews with 12 stakeholders and experts in local and national food and aging policy, presented a clear picture of the structural barriers facing older adults who want to eat both healthfully and economically. Additional interviews with representatives from other farmers' market incentive programs allowed us to identify promising practices and models that may benefit HALA in its work to support older adults through Market Match.

At the time of our study, HALA did not maintain data on participants' age; thus, a quantitative study would have required extensive screening to obtain an acceptable sample size. Given the short time frame available for our evaluation, we selected a qualitative set of methods. As the first study of the older adult Market Match population to date, our client was especially interested in the kind of rich, contextual data gleaned from semi-structured interviews.

Through a series of 18 interviews with older adults who participate in Market Match at the four highest-participation markets and 18 interviews with eligible, non-participating older adults at nearby senior centers, we were able to capture the stories and experiences of Los Angeles County's older adults who are navigating food choices with limited budgets.

The Policy Problem

Today's older adults are living longer than ever before, while confronting increasingly limited resources to support healthy aging over a longer lifespan. An estimated 516,000 older adults in Los Angeles County unable to afford basic living expenses, including nutritious foods.¹⁶ Thus, a sizable portion of the older adult population is at increased risk for dietary deficiencies, health problems, and chronic conditions, such as diabetes and heart disease.¹⁷⁻²²

Currently, over 70 percent of older adults in the US have at least one chronic condition and they are three to four times more likely to utilize the healthcare system than the general population.²³ As a result, the older adult population makes up the most costly share of healthcare expenditures in the U.S., with older adults accounting for 37 percent of US healthcare expenditures as of 2010.²⁴ Moreover, average healthcare spending for a 65 year old adult is five times higher than spending per child.²⁵

While poor health among older adults presents a sizeable cost burden to society, public and private resources aimed at preventing chronic disease and its subsequent costs have largely concentrated on establishing healthy habits for children and families. For instance, at the federal policy level, the Women Infant and Children Program (WIC) reaches 60 percent of eligible, low-income families and children with its budget of \$6.2 billion.²⁶ A model nutrition program with sites in low-income neighborhoods across the country, WIC provides nutrition education and distributes weekly healthy food vouchers to participants, including vouchers to spend exclusively on fruits and vegetables.

Conversely, nutrition resources for older adults have been sparse and dispersed across many programs, making access to healthy foods especially challenging for the older population. At a federal policy level, the Older Americans Act Nutrition Program provides meals and other nutrition services in congregate and home settings for eligible older adults. However, with a budget of only \$784 million, the program is underfunded and consequently reaches less than five percent of eligible older adults.²⁷

Many local service delivery organizations provide food to low-income older adults in Los Angeles to make up for limited federal resources. But these programs typically offer packaged prepared foods rather than fresh fruits and vegetables.²⁸ As a result, low-income older adults have few options for healthy eating.

While investing in prevention for older adults may seem counter-intuitive, the growing aging population and the anticipated cost-savings associated with prevention are compelling reasons

for policymakers and civil society to dedicate resources to older adult nutrition assistance. There is an estimated \$3.14 per dollar return-on-investment for preventive health care spending.²⁹ Hence, such interventions offer a comparatively low-cost and high return approach to maintaining a healthy, aging population.

A healthy diet, consisting of at least half a plate of fruits and vegetables per meal, can help prevent, delay and reduce symptomology of chronic disease associated with aging, and improve quality of life.³⁰⁻³⁵ Mental health benefits are also associated with nutrient-dense diets. These benefits include reduced depressive symptoms, which are common among older adults who often live alone or feel socially isolated in their communities.^{36,37}

History of Farmers' Markets in Los Angeles

While the term “farmers’ market” may conjure an image of a fanciful bounty of fresh and organic produce exclusively available to a higher-income neighborhood where celebrity chefs do their weekly shopping, the humble beginning of these markets dates back to the Great Depression. Located at Third Street and Fairfax Avenue, the first farmers’ market in Los Angeles was established in 1934. In the midst of the Great Depression, Americans, including farmers, struggled to secure work and the unemployment rate reached an estimated 33 percent in Los Angeles County. Desperate to earn a living, farmers gathered to sell their produce on land that had been mostly vacant into the 1930s.^{38,39} Within three months, vendors began moving into permanent stalls and the market’s popularity was celebrated during the first Fall Festival, an annual event that continues today.⁴⁰

Farmers’ markets, however, were not formalized in California until the 1970s.⁴¹ California Governor Jerry Brown signed the Direct Market Act in 1978. The new law authorized California farmers’ to produce, pack and sell their produce directly to consumers at state-certified farmers’ markets.⁴² Capitalizing on both the opportunity to leverage new business and to serve a population in great need of fresh produce, a coalition of farmers and community leaders, through the Interfaith Hunger Coalition, took on the task of establishing certified farmers’ markets. With the mission of increasing access to affordable, local produce, the Coalition sponsored the first five California Certified Farmers’ Markets in Los Angeles County, with the first located in a small church parking lot in Gardena. There are now more than 700 certified farmers’ markets in Los Angeles County.⁴³ Many of these markets are located in communities where access to quality, fresh produce is still a challenge.⁴⁴

Current State of Farmers' Market Incentive Programs in California and Nationwide

To alleviate persistent economic pressures facing low-income communities in purchasing fresh produce further, local nonprofit organizations implemented farmers' market incentive programs. Early programs utilized monetary incentives as a strategy for decreasing the growing rates of obesity among SNAP beneficiaries within low-income neighborhoods.⁴⁵ The first farmers' market incentive program for SNAP recipients was launched in New York City in 2006 and the model has steadily gained national traction ever since.⁴⁶

Currently, farmers' market incentive programs are offered at over 350 farmers' markets nationwide. Funding for these programs comes from a variety of sources, including the United States Department of Agriculture (USDA) Specialty Crop Block Grant program. This small grant exclusively funds fresh, local produce in order to help improve food access in underserved communities.

Evaluations of farmers' market incentive programs across the U.S. have consistently shown that SNAP beneficiaries purchase more produce as a result of farmers' market vouchers.⁴⁷⁻⁵² In a California statewide survey of SNAP participants, 97 percent of participants reported consuming more fresh produce as a result of participation in the voucher program.⁵³ While most evaluations have focused exclusively on farmers markets, a study in Boston found SNAP beneficiaries assigned to purchase produce at the farmers' market consumed 50 percent more produce than SNAP beneficiaries assigned to purchase produce at grocery stores.⁵⁴ Controlled studies are needed to compare the effectiveness of farmers' market incentive programs to alternative models; however, early evidence indicates that participation in farmers' market incentive programs is correlated with increased fruit and vegetable consumption among low-income populations.

These findings have garnered national recognition and have sparked interest in the farmers' market incentive model from federal, state, and local policymakers. In California, Assembly member Phil Ting (D-San Francisco) introduced AB2385 in 2014 to expand funding for Market Match and similar programs that assist low-income consumers to purchase fresh produce.⁵⁵ It is expected that this legislation will be re-introduced in 2015. At the federal level, a 2014 farm bill authorized \$31.5 million in grants to incentivize spending SNAP benefits on local produce through the new Food Insecurity Nutrition Program.⁵⁶ While the farmers' market incentive model is still a fairly new policy initiative, its early success and recognition indicate promise for further implementation.

Findings: Los Angeles Older Adults' Experiences with Farmers' Markets Vouchers

Prior evaluations revealed that the farmers' market incentive model has been useful for SNAP beneficiaries. As such, our evaluation aimed to ascertain the utility of this model specifically for older adults in Los Angeles County. Interviews with 18 older adults in the four highest-participation markets (East Los Angeles, Huntington Park, Adams-Vermont (South Los Angeles), and Gardena) and interviews with 18 non-participants at two proximal senior centers revealed two major themes:

- 1) Participating older adults perceived nutritional and health benefits from using the program.
- 2) Those who had not used the program wanted to sign up and saw utility in it.

Our findings are summarized below.

Market Match Older Adults Consumed and Purchased More Produce

Ninety-four percent of participants (17 out of 18 respondents) bought and ate more fruits and vegetables after signing up for Market Match. Older adults reported they purchased a wide variety of produce to make practical daily meals, including soups, steamed vegetables, smoothies and salads. Many older adults tried new vegetables and fruits as a result of the vouchers.

"I had never tried the sweet pea and now I love it, I buy it a lot from here. And then the Chinese cabbage. Oh, and the artichoke!" – Market Match Participant

Shopping and Purchasing Decisions Were Based on Quality and Price

Older adults signed up for the program for two major reasons: 1) quality of the produce, and 2) affordability offered by the vouchers. Typically, older adults found out about the program by visiting a farmers' market or a referral agency, such as the Department of Social Services.

1. *The farmers' market produce was perceived to be of greater quality.* Participants reported quality was a major consideration in their shopping decisions, and 16 out of 18

"I used to go to the food bank but they give you a lot of canned food and I don't feel that is good for you." – Market Match Participant

participants reported that the fruits and vegetables were the best part of the farmers' market experience. The produce lasted longer than typical grocery store produce, and

participants reported that the produce was of a higher perceived quality, fresher, and tastier than produce found in grocery stores. One participant reported: “You go to Ralphs and they give you the tomato for \$2 and it is the same here. But it is better and cheaper here because I put this tomato on a plate on my table and I don’t need to put it in the fridge because it lasts a long time. Sometimes even a month.” This was a particularly valuable feature for older adults, many of whom reported living alone and wanting to buy smaller quantities and avoid food spoiling. Participants also reported delighting in viewing and tasting the produce as part of the tactile experience of visiting the market.

2. *The vouchers are key to their decision to shop at the farmers’ markets.* Not only did the longevity of the produce add to its quality appeal but it also contributed to a perceived cost-savings as a result. Over half of participants felt they were saving money on produce when using the program compared to shopping at grocery stores, allowing them to free up money for other expenses, such as gasoline and medications. Without the voucher, however, many said the farmers’ market produce was more expensive than the grocery store.

Reported Benefits of Participation: Health, Community Engagement

There were multiple perceived benefits to older adults’ physical and mental health. While our qualitative study was unable to measure change in health outcomes, participants reported feeling healthier after participating in Market Match and some even associated health improvements with the program. For instance, a handful of diabetic participants said their participation improved their blood glucose levels, and one participant reported having lowered cholesterol and improved heart rate due to participation. Another participant explained he was able to reach his personal health goals as a result of the fruits and vegetables.

Many participants felt the weekly visits to the farmers’ markets provided an opportunity to increase their time spent walking, to enjoy the outdoors, and to receive a mental health boost. One participant exclaimed that the farmers’ market visits offered him a new opportunity for exercise, as his wife preferred to use the car for their other errands: “I now have a healthy physique; I look so good because I walk here every week!”

“I leave the farmers’ market really happy. I really enjoy coming here and getting some fresh air.” –
Market Match Participant

Surprisingly, we found that the simple joy of having an excuse to get out of their homes and engage in the community was a huge draw for older adults. Participants posited that the trip to

“I like to come, I can see what I want and pick whatever I want. If I can move around and I have my driver’s license, I would like to go [to the farmers’ market].” –
Market Match Participant

the farmers’ market was something special to look forward to in their weekly routines. When asked if they would prefer a home delivery service, 78 percent (11 out of 14) of respondents said they would not, while a few said they would like delivery in addition to visiting the farmers’ markets.

Older adult participants also reported that the patient and knowledgeable assistance in selecting and purchasing their produce made their experience better at the farmers’ markets. Some participants had been visiting the same farmers’ market for years and knew the vendors well. Interacting with vendors allowed them to ask questions about healthy eating and cooking in a comfortable space.

Is Market Match for Everyone?

While participants generally reported a positive experience with the Market Match program, we also interviewed nonparticipants to understand why they had not used the program and what characteristics distinguished them from participants. Of 18 nonparticipants at two local senior centers, 94 percent (17 out of 18) reported they would sign up for the Market Match program. When asked why they had not signed up, all of them indicated they did not know about Market Match. A few had shopped at farmers’ markets in the past, and a few participated in the Federal Senior Farmers’ Market Nutrition Program (SFMNP), a program that distributes \$20 vouchers once per year to low-income older adults to be used at farmers’ markets. However, none were aware of Market Match.

Once nonparticipants learned about Market Match, they wanted more information in order to participate. Many even asked if our research team could assist them in signing up. Even those who said they did not go to farmers’ markets previously because of transportation concerns said they would still sign up for the voucher program once they realized it was accessible.

Nonparticipants reported that their purchasing decisions were based mostly on affordability and quality. Many had also felt socially isolated, even when among other visitors to senior centers. They strongly desired more social engagement with their food shopping experience. Nonparticipants were less interested in delivery options, despite the convenience, as they preferred getting out in the community. Consistent with participants, they reported that it is important to know the market employees in order to ask questions.

How Can HALA Better Meet the Nutritional Needs of Los Angeles' Older Adults?

In addition to discussing the benefits of Market Match, participants and non-participants provided suggestions for improving the Market Match program to better meet their needs. Key suggestions included:

Incorporate regular activities and social opportunities. Many older adults felt isolated, and some sought friendship as a central benefit they hoped the farmers' market program could

"Without food, you cannot make friends!" – Market Match Participant

cultivate in the future. Presently, many older adults reported they did not know the other shoppers at the farmers' market, though some came with a relative or a friend. Many older adults lived alone, and explained that their friends and companions had died. Nonparticipants

visiting senior centers reported not forming lasting friendships with participants in the centers. A major recommendation for the program was to provide more social opportunities, such as cooking demonstrations, which were favored by older adults when offered at the East Los Angeles farmers' market.

Offer nutrition education. Older adults noted a desire to learn more about nutrition. Many wanted to know which foods offer which health benefits and how these could improve symptoms of their chronic conditions. Some participants were interested in cooking classes at the farmers' markets or community centers. Sixteen out of 18 participants wanted additional nutrition education services. Many

"TV is an easy way to learn recipes, but you cannot ask it questions." – Market Match Participant

would have liked recipes, and one participant noted it would be good to provide nutritional benefits of ingredients on recipes. Nonparticipants were also very interested in learning more about nutrition and cooking classes. One nonparticipant described his frustrating experience purchasing a three pound bag of chia seeds for a week's worth of meals based on an infomercial he had seen describing the health benefits, only to find chia seeds are difficult to digest in large quantities. The opportunity to engage with knowledgeable nutritionists regarding combining and preparing foods was important to older adults.

Increase availability of vouchers and outreach for the program. A few participants were frustrated to have arrived at the farmers' market too late to obtain vouchers, as the popularity of the program often meant that vouchers would run out in the first half of the day. In those cases, they hoped more vouchers would be provided in the future. Nonparticipants reported they wish they had known about the program sooner, and they wanted to share information

about the program with their friends and others. They desired pamphlets or other materials that they could take home to remember the voucher program and how to access it.

Findings: Practices in Farmers' Market Incentive Program Administration and Design

In addition to our interviews, we aimed to understand the structure and operations of existing farmers' market incentive programs, including HALA's program. With this information, we sought to identify promising practices in the management of an incentive program as well as opportunities for HALA to increase its reach. During our research, we found that there are two universally common challenges to managing and scaling up a farmers' market incentive program in order to reach more eligible participants: 1) inadequate level of funding and 2) limited staffing and administrative capacity.

Our interviews with organizations operating farmers' market incentive programs revealed that many organizations struggle to secure adequate funding to cover incentive and administrative costs, due to a challenging fundraising environment. Many organizations, including HALA, report challenges including excess demand for a limited supply of vouchers, a patchwork funding structure of multiple, inconsistent sources, and resistance from funders to provide new and ongoing grants. Moreover, we found grants and other funding sources were typically given on a short-term basis and reserved for covering start-up costs. Thus, the current funding landscape may limit the ability of an organization like HALA to secure the large investments needed to serve the growing older adult population in Los Angeles County.

Discussions with other leading organizations and our literature review also revealed that limited staffing capacity due to insufficient funding made it challenging to conduct the kind of fundraising, outreach, marketing, branding and rigorous evaluation that would be necessary to scale up the program to meet the current demand.^{57,58} Currently, there are two staff persons at HALA who are responsible for managing the entire program, from raising funds to overseeing subcontractors and managing relationships with farmers' market operators. To serve all eligible older adults in need in Los Angeles County, HALA would likely need additional staff and resources to support ongoing fundraising, increased branding and marketing, administration of a larger program, and rigorous evaluation.

While leading farmers' market incentive programs lamented the challenges of obtaining sustainable funding, they also identified two strategies that enabled them to increase their reach without having to make substantial organizational changes: 1) strategic partnerships⁵⁹ and 2) stakeholder engagement^{60,61}. Interviewees suggested that relationships with nonprofits and agencies at the local and state levels, such as the Department of Public Health, helped

them to perform a variety of tasks including technical assistance, carrying out marketing and outreach activities, identifying and securing additional funds, and providing on-the-ground operational support.⁶²⁻⁶⁴ Additionally, interviewees explained that engaging relevant stakeholders and local community members served as an initial step in garnering recognition and subsequent funding by demonstrating community support for the program.

Potential Strategies to Reach Additional Older Adults in Los Angeles County

To serve a greater proportion of targeted populations in need, we found that nonprofit organizations have implemented a variety of strategies, including increased fundraising changing staffing structures, and altering the design of the program or services provided. As a result, we examined some strategies that HALA could implement in order to enhance the capacity of the organization to benefit and serve additional, eligible older adults. We explored 1) reducing the voucher ratio, 2) implementing a vendor sponsorship model, and 3) utilizing additional service points in the future to reach a larger proportion of the 516,000 older adults in need, given the current number of farmers' markets in Los Angeles County.

To reach additional participants at no additional cost, some organizations have reduced their matching ratio, from a one to one ratio to a five to two ratio. For example, for every five dollars of SNAP benefits used, a participant might receive two dollars' worth of vouchers, up to ten dollars per week. While this option would increase the number of participants served without requiring additional funding or organizational capacity, it would decrease the purchasing power of each participant, and thus, may reduce a participant's consumption level or desire to participate in the program.

As an alternative to ratio adjustments, some organizations have implemented vendor sponsorship or cost-sharing models to reduce the cost burden to the farmers' market incentive program operator. Vendor sponsorship or cost-sharing agreements could be achieved if a vendor contributed an agreed-upon amount, with this money being rolled into the existing market stall fee. Since farmers' market managers already collect a fee from vendors who wish to sell at farmers' markets, the infrastructure for collecting a vendor contribution is already in place.

The proposed vendor contribution might be added to the existing stall fee, increasing the aggregate total of this fee. This option provides an opportunity to diversify the funding stream for incentives, and reach a greater number of older adults. Since HALA has a strong relationship with farmers' market managers and vendors, the organization could establish a sponsorship agreement, specifying that a portion of the fee be dedicated to Market Match. Vendors may be

willing to invest in the program, as increased incentives for participants may result in increased profits via a greater customer base.

Apart from directly reducing the cost burden of vouchers to increase immediate reach, we examined the possibility of offering the program via multiple service points such as grocery stores and home delivery models. Integrating the Market Match model into a grocery store setting could offer greater flexibility for participants as grocery stores traditionally have more consistent and convenient hours than farmers' markets. While this option would increase access, grocery stores would not replicate the experience of community engagement, social connectedness, and outdoors activity from which older adults benefit while visiting farmers' markets. Interviews with experts suggested there may also be administrative challenges to offering incentives only for local produce in markets that sell both local and non-local produce. Further evaluation would be needed prior to incorporating Market Match in grocery stores.

Home delivery services offer another practical way to expand the Market Match program beyond farmers' markets and to increase reach to the large proportion of homebound and less mobile older adults. Through our interviews with older adults and experts in the field of aging, we learned that transportation often poses a significant challenge for this population. The reach and breadth of such a home delivery model could be instrumental for this potentially less mobile demographic.

However, additional research is necessary since this approach has only recently started to take hold for more agile family populations. Because almost all our interviewees were disinterested in delivery, it is possible the experience of going outdoors to visit the farmers' market is superior to any alternative for our aging population. Even some persons who are less mobile may derive mental health benefits from going to markets. A robust needs assessment would be necessary before consideration of a home delivery option.

Policy Recommendations

Market Match has shown promise in addressing the issue of nutrition among low-income older adults since the 2012 launch of this demonstration. Based on the results from our literature review, expert interviews, and our discussions with local older adults in Los Angeles, we formulated a set of recommendations meant to address some of HALA's current growth limitations. We suggested the following two-step approach: 1) focusing on establishing greater financial sustainability and program growth, and 2) harnessing these additional resources toward serving additional, eligible older adults in Los Angeles County.

Step One: Focus on Financial Sustainability and Program Growth

To prioritize HALA's immediate goals, we recommended HALA implement a vendor sponsorship model, increase fundraising capacity, and initiate an evaluation framework for future and ongoing research.

Establish vendor sponsorship. First, we recommend that HALA fund a portion of the program through vendor sponsorship. Not only would vendor sponsorship help to diversify the funding stream and bring in additional revenue, this approach would also send a message to the funder community that HALA is working to make its model more financially sustainable and is seeking creative solutions to address its funding challenges.

Strengthen fundraising capability. Additionally, we recommended that HALA strengthen its fundraising capability by cultivating partnerships, enhancing stakeholder and community engagement, and streamlining branding and communication efforts. These efforts serve to increase awareness of the program, secure new grants, and strengthen HALA's organizational capacity through strategic partnerships. Greater consistency in marketing and branding may also help funders better recognize the Market Match program, and in turn may increase consumer demand for the program, thereby increasing HALA's influence with funders.

Develop an evaluation framework. Finally, while HALA is working to scale up its program, we recommended that the organization also establish a framework for a future, ongoing evaluation. To begin, we suggested HALA incorporate an age range response item in the Market Match roster to track participation levels of older adults. Second, we recommended HALA establish a set of short-term and long-term goals for the program and an evaluation protocol to monitor progress. Ongoing evaluation could investigate participants' health and mental health over time, or cost-effectiveness of the model for older adults. This may require hiring a third-party evaluator, or bringing on a dedicated intern to monitor program progress and outcomes.

Step Two: Expand the Program to Serve Additional Older Adults

Once HALA strengthens its fundraising and organizational capacity, we suggested the organization focus on increasing the reach of the Market Match program to serve a larger segment of the 516,000 older adults in Los Angeles County who could benefit from it.

Expand service to additional farmers' markets. Currently, there are more than 100 farmers' markets throughout Los Angeles County, of which roughly 70 accept SNAP benefits. Therefore, we recommended that HALA work to expand the program to additional farmers' markets. To

accomplish this, we suggested that HALA should develop a strategic plan, with input from its stakeholders and partners. This plan could outline the program's goals for growth, the strengths and weakness of the current farmers' market landscape, and the issues around food accessibility. Moreover, the plan should provide a roadmap for integrating the Market Match program into these additional markets.

Launch a targeted marketing campaign. Through our interviews, we learned that the primary reason for non-participation among eligible, older adults was a lack of awareness about the program. An information campaign could consist of fliers with simple, consistent messaging posted in locations visited by older adults, such as senior centers.

Consider older adults' desired features. Older adults interviewed for this study requested more social and community activities, including nutrition education or cooking classes, and increased transportation options. However, the priorities in step one of our recommended approach must first be addressed before HALA devotes its resources to additional services. Furthermore, once HALA has gained additional partners and increased support and recognition in the community, these connections might allow HALA to provide these desired services at little-to-no additional cost.

Limitations

Due to our small sample size and qualitative design, we do acknowledge that our findings may not be representative of the whole population of Market Match-eligible older adults. Funding and time limitations available for our study meant we were only able to speak with program participants at four markets, and the experiences of these consumers may not accurately represent consumers at all 12 markets. Findings from interviews with nonparticipants cannot speak to the experiences of all older adults in the community, especially those in assisted living and nursing homes who are unable to travel to senior centers.

Conclusions and Opportunities for Future Research

This chapter helps our understanding of the effectiveness of the California farmers' market incentive program, Market Match, as administered by HALA on behalf of older adults in Los Angeles County, California. Through a literature review, semi-structured interviews, and expert interviews, our team determined that the program shows potential for meeting the nutritional needs of low-income, older adults. The key takeaways from this assessment are:

- Current older adults participating in Market Match value the program and report that it has allowed them to incorporate quality, fresh produce into their diets affordably.
- Nonparticipating older adults are interested in participating in Market Match.
- Two of the greatest, universal challenges to operating a farmers' market incentive program include inadequate funding thus limited staffing capacity and incentives.
- Additional research to demonstrate the association between participation in a farmers' market incentive program and improved health outcomes as well as a market analysis to explore venues other than farmers' markets for incentive programs is needed.

Given the increasing attention on farmers' market incentive programs in California and throughout the country, it is likely that this model will continue to grow in popularity. In fact, since we began this evaluation in September 2013, HALA has expanded its Market Match program to five additional farmers' markets in Los Angeles County. As the incentive model continues to be seen as a viable option for linking low-income Californians with fresh, local produce, there are ample opportunities for scaling up incentive programs to reach a greater number of older adults.

Over the course of our study, we identified two areas for exploration: 1) an assessment of the health outcomes associated with participating in a farmers' market incentive program and 2) a market analysis, which considers whether the incentive model might be replicated outside of farmers' markets, including grocery stores or other venues that potentially offer greater convenience than the farmers' market.

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CHAPTER 5

California's Economic Prospects: What's Wrong and What's Right

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This chapter is based on information available as of mid-October 2014.

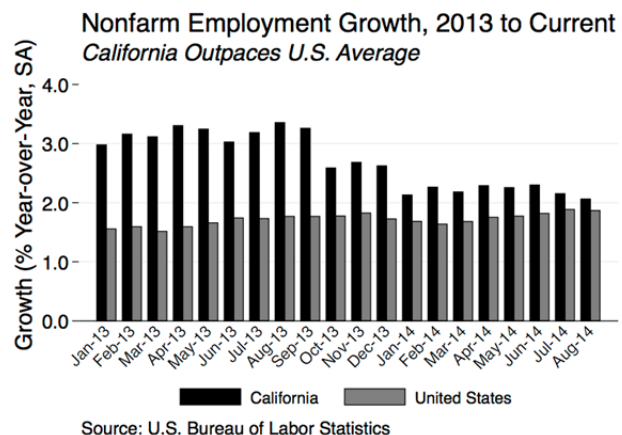
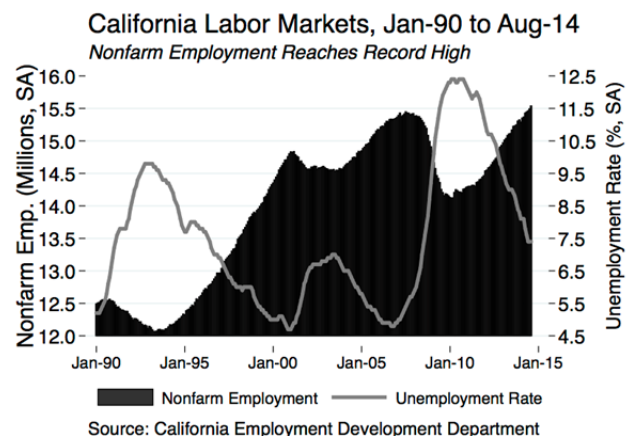
With the Great Recession firmly in the rear-view mirror, and California's economy well into its recovery, it's a good time to assess both what is working in the state, and the greatest challenges that still lay ahead. The following forecast focuses on what's right in today's California, which areas need improvement, and where the state's economy is headed over the next five years.

What's Right Cyclically?

From a cyclical standpoint, many things are going well in California's economy.

Labor Markets: Employment in the state is growing consistently. In June 2014, California finally surpassed its pre-recession employment peak, recovering all of the 1.35 million jobs lost during the downturn and reaching the state's highest level of nonfarm jobs on record. Through August 2014, California added an additional 75,700 jobs and now has nearly 90,000 more jobs than it did at the height of the previous bubble. Every major metropolitan area in California has experienced a return to job growth, although some regions continue to do better than others. Similarly, every job sector, with the exception of Government and Finance, has seen an uptick over the past four years, since the recession ended.

Moreover, as of August 2014, California had outpaced job growth in the nation overall for 30 consecutive months. In August, California dipped from the 9th fastest growing state in the nation (June 2014) to the 13th fastest. However, the number of jobs created was second only to Texas (314,000 vs. 395,000). In fact, one out of every eight jobs created nationwide over August 2013 – August 2014 was created in California.



Broader Economic Conditions: Virtually every key economic indicator in California is moving in the right direction: GDP is expanding in real terms, incomes are rising in the aggregate, consumer and business spending is approaching its fifth year of consecutive growth, and the state's unemployment rate has fallen from a peak of 12.4%, to 7.4% (August 2014) despite the fact that the labor force has expanded since the end of the downturn.

Fiscal Situation: California's budget continues to heal with Governor Jerry Brown perceived nationally as balancing the state's books.¹ Although the budget situation is more nuanced than the headlines suggest, revenues have improved tremendously. With the passage of Proposition 30, which raised income and sales taxes, General Fund receipts are up by more than 18% since hitting bottom in 2011-2012 when the previous temporary sales tax increase expired. This improvement is also being felt at the local level as both sales taxes and property taxes rise across California.

Residential Real Estate: After precipitating many of the issues that drove the state and nation into recession in the first place, California's real estate markets are also on a robust growth path. The median price of an existing single-family home has been growing by double-digit percentages all across the state since June 2012. The growth is due in part to limited inventory, which the California Association of Realtors estimate was at just 4.0 months of supply in August 2014. The numbers of distressed units coming onto the market has also fallen as defaults and foreclosures have plummeted in the wake of the recovery.

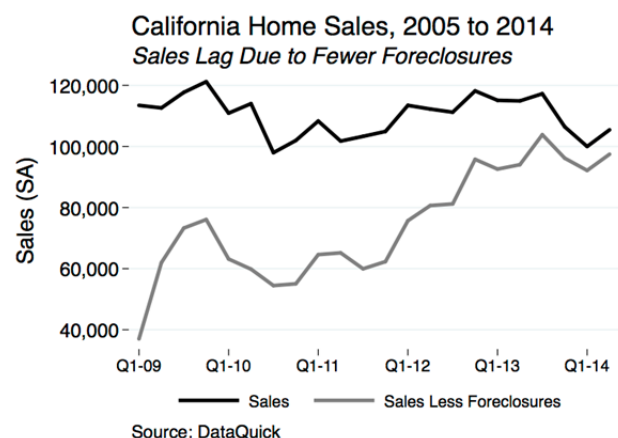
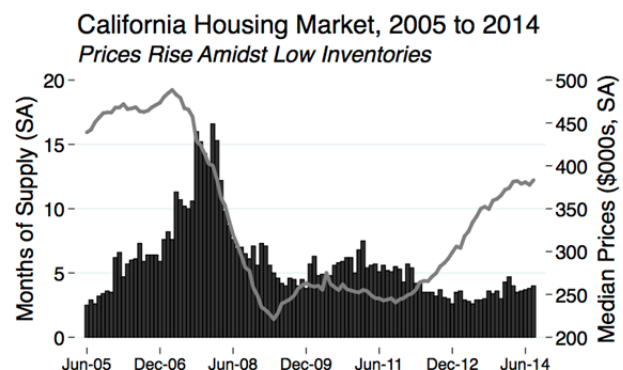
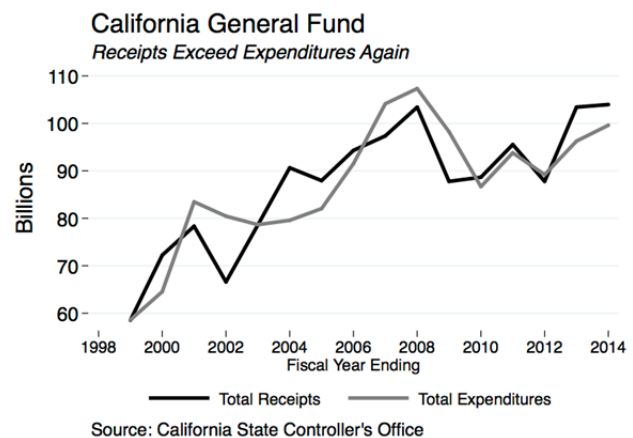
Home sales in California have been lackluster and largely viewed as a disappointment by the

¹Thomas Del Beccaro, "Jerry Brown Stands Atop California!" <http://www.forbes.com/sites/thomasdelbeccaro/2013/07/house-of-cards/>.

California Economic Indicators

Indicator	2012	2013
Real GSP Growth (%)	2.7	2.0
Personal Income Growth (%)	5.0	2.8
Taxable Sales Growth (%)	7.3	6.8
Unemployment Rate (%)	10.4	8.9
Labor Force (Millions)	18.52	18.60

Source: Various



markets and in the media. Sales have indeed been weak on the surface. However, the reason for the lackluster total sales figures is due to the reduction in new foreclosures across California. When foreclosures are omitted from the equation, California home sales have been on the uptick in 2014. Although the headline figures have disappointed some, they are the result of very positive trends.

Residential Permits: New construction activity continues to grow as builders are enticed by rising prices and limited inventories. Multi-family properties make up the majority of new residential units being built in the state, driven by demand, as the renter population has increased significantly since the foreclosure crisis. And unlike many other states, the vacancy rate for both ownership (1.2%) and rental properties (5.2%) is very low, which should continue to drive new construction permits for both single- and multi-family properties into the future.

Commercial Real Estate: The commercial side of the real estate market was much slower out of the recovery gate than were residential properties. However, California's nonresidential market is experiencing progress. Vacancies for office space in particular, while remaining high, have begun to decline. Industrial properties in California stand out as the healthiest part of the commercial market with vacancy rates now in the low single-digits in most major metropolitan areas.

Nonresidential Permits: Improvements in the commercial real estate market have spawned new commercial development projects. Through August 2014, nonresidential permit values were up 17.7%, with gains spread between the development of new office, hotel, and retail space, and alterations/additions to existing structures. The increased activity, coupled with improving residential market conditions, should help drive additional job growth in Construction over the next few years.

Tourism: External forces are also propelling California's economy ahead. Hotel occupancy in the state was up 1.7 percentage points in August 2014 from one year prior. That put hotel occupancy at nearly 73% statewide—almost 8 percentage points higher than the national average. At the same time, average daily room rates have climbed by more than 8% over the past

California Residential Permitting

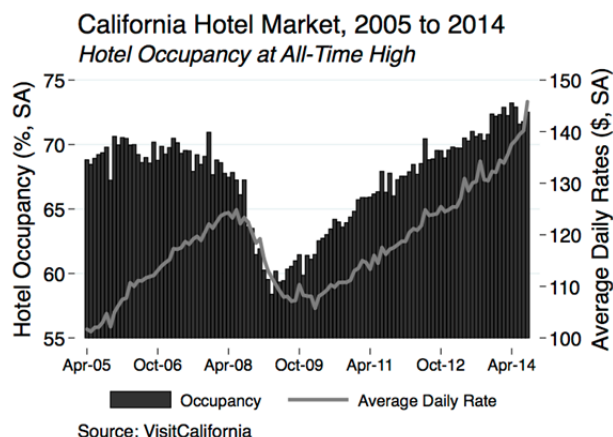
Indicator	Aug-13 YTD	Aug-14 YTD	Change (%)
California			
Multi-Family	27,179	26,730	-1.7
Single-Family	24,867	25,768	3.6
52,046	52,498	0.9	
United States			
Multi-Family	219,274	256,523	17.0
Single-Family	428,989	426,681	-0.5
Total	648,263	683,204	5.4

Source: U.S. Census Bureau

California Nonresidential Permitting

Indicator	Aug-14 YTD (\$Mill.)	Change (%)
New Commercial	4,632	49.9
Office	1,183	48.4
Retail	1,835	29.2
Hotel	548	204.4
Industrial	522	-16.2
Other Nonres.	2,386	-18.4
Nonres. Alts./Adds.	7,940	21.9
Total Nonres.	15,479	17.7

Source: California Homebuilding Foundation



year to \$145.80. And at California's airports, international passenger traffic was up more sharply than domestic passenger traffic indicating that the state remains a top tourist destination for foreign visitors.

What's Wrong Cyclically?

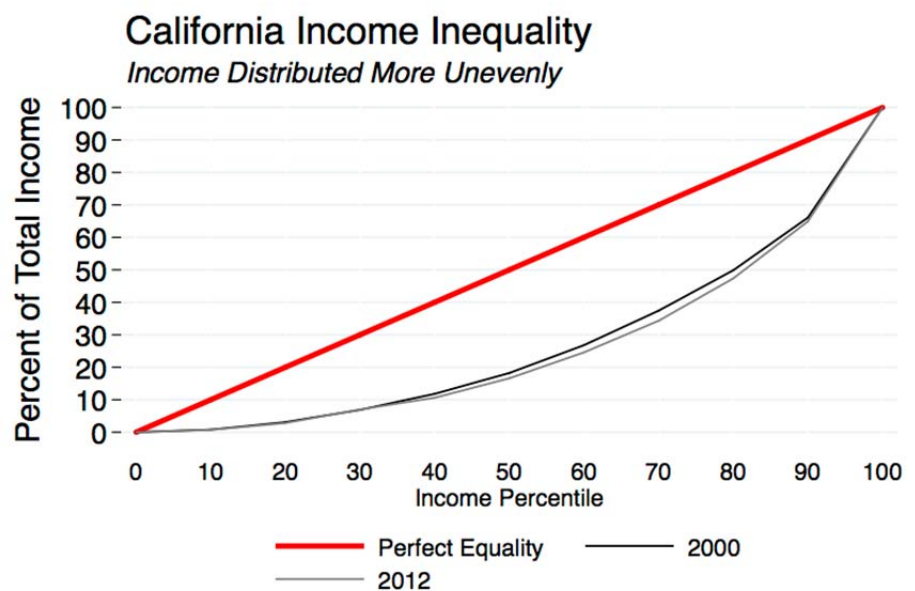
Although the cyclical effects of the recent recession continue to fade, that progress has not been spread evenly across the population base. Some Californians are doing much better in the current economic environment than others.

Workers Left Behind: California recently returned to its pre-recession peak employment level. However, the sectors that experienced the most growth during the recovery are not the same sectors that lost the most jobs during the recession, and many workers continue to face difficulty finding work. For example, the Healthcare, Professional/Scientific/Technical sector has at least 100,000 more jobs now than at the peak of the bubble. On the other hand, collectively, there are still 500,000 fewer jobs in the Retail, Construction, and Manufacturing sectors. Many former Retail and Construction workers are not in a position in terms of skill sets to tap into the faster growing and higher wage Professional job sector. As such, at least 25% of the state's unemployed workers have been unemployed for over six months—a point at which their skill levels and employability begin to erode.

California Employment Levels

Industry	Jul-07 Peak	Aug-14 (Current)	Diff. (000s)
Education/Health	1,919.6	2,405.3	485.7
Leisure/Hospitality	1,562.6	1,721.7	159.1
Prof/Sci/Tech	1,062.9	1,190.6	127.7
Admin Support	999.7	1,025.9	26.2
Management	207.2	226.0	18.9
Other Services	514.2	524.6	10.4
NR/Mining	26.7	31.5	4.8
Logistics	511.7	512.1	0.4
Information	471.4	471.7	0.3
Wholesale Trade	717.3	709.0	-8.3
Real Estate	284.2	264.2	-20.0
Retail Trade	1,691.6	1,626.9	-64.7
Finance/Insurance	614.2	514.3	-99.9
Government	2,498.0	2,389.3	-108.7
Manufacturing	1,468.8	1,250.6	-218.2
Construction	899.4	676.4	-223.0
Total Private	12,951.8	13,150.3	198.5
Total Nonfarm	15,449.8	15,539.6	89.8

Source: California EDD

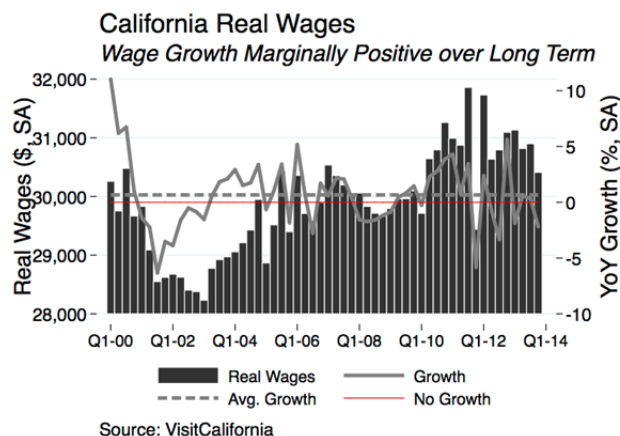


Source: U.S. Census Bureau

Rising Inequality: Given the uneven growth across higher and lower wage job sectors, income inequality in California has increased in the wake of the recession. In 2012, the top 20% of income earners in the state accounted for 52.6% of all income earned. In 2000, the top 20% of income earners accounted for just 50.1% of all income earned. Income has become increasingly concentrated and inequality has risen over the past decade as high-income earners have done

better and middle-income earners have been more prone to migrate out of California in search of more affordable housing.

Lackluster Wage Growth: Although nominal wages have been rising over the past 15 years, so too has the cost of housing, goods, and services. Adjusting annual average wages into real terms with the Consumer Price Index for the western region, and wage growth has been lackluster at best. In fact, wage growth has only been slightly more positive on a year-over-year basis than it has been negative with growth dropping below zero in 23 of the past 56 quarters. On average, real wages in California have grown by 0.66% since 2000, and at the end of 2013, real wages are almost identical to what they were at the turn of the century, meaning that the quality of life for the average Californian has not improved much.

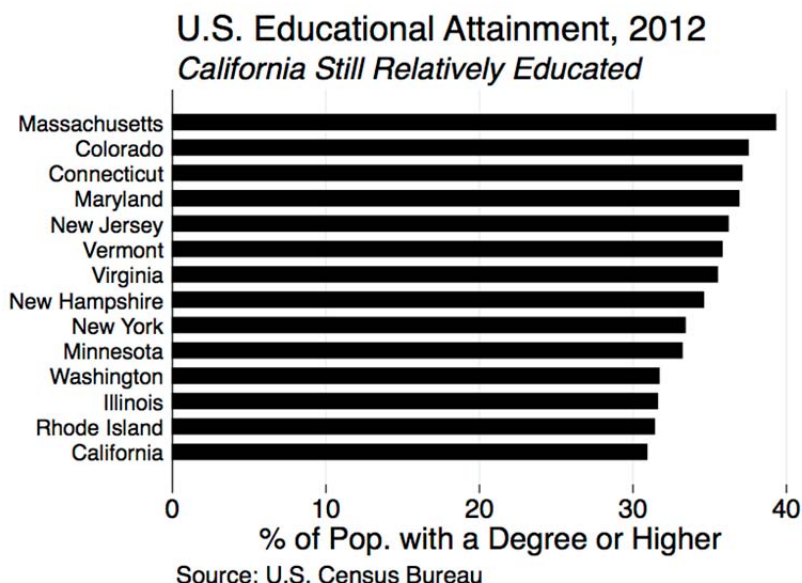


What's Right Structurally?

In addition to its more recent recovery from the recession, California's many structural assets and advantages will also help stimulate economic growth over the next five years.

Strategic Infrastructure:

California is home to infrastructure that will help generate jobs and economic activity as the state moves ahead. When combined, the Ports of Los Angeles and Long Beach are the second largest exporting ports in the nation, behind only Houston. Add exports from Los Angeles International Airport and more goods are shipped through the Southern California economy than from any other port in the nation.



While there have been concerns over the competitive threats associated with the expansion of the Panama Canal, those fears are largely overblown. Although some firms may find it advantageous to circumvent West Coast ports in favor of ports along the Gulf of Mexico,

California will still remain competitive for time-sensitive deliveries as well as for the next generation of super-ships that will be too large for even the widened Panama Canal to accommodate.

Educated Workers: California has long been home to a highly educated workforce. According to data from the U.S. Census Bureau, over 30% of California residents hold at least a bachelor's degree. That ranks 15th nationwide, and represents a solid contingent of skilled workers who feed the high-tech industries synonymous with the state. Indeed, California has been ranked amongst the most innovative states in the entire union.²

Venture Capital: Perhaps as a result of the skill and educational levels of California residents, the state continues to be a center for technology-based growth and new inventions. Venture capital funding has seen strong, though bumpy, growth since hitting bottom in 2009. Total venture capital funding in California exceeded its pre-recession peak during the first quarter of 2014—nearly doubling over the first quarter of 2013. Indeed, in 2013 California received more than half of all venture capital investment in several high-tech categories including Semiconductors, Computers and Peripherals, Telecommunications, Media and Entertainment, Software, and IT Services.

Innovation: California is also responsible for a significant portion of all U.S. patent activity. According to the U.S. Patent and Trademark Office, over 27% of all utility patents issued to domestic firms and individuals were granted in California last year. Since this patent data first started to be collected in 1963, California has been home to more than 18% of all domestic patents issued. That is roughly six percentage points higher than the state's share of the U.S. economy overall, demonstrating that California has historically contributed more than its proportional share of technological advances in the nation.

Venture Capital Investment in 2013

Industry	California	United States	California Share (%)
Semiconductors	395	601	65.7
Computers/Periphs.	327	517	63.2
Telecomms.	390	644	60.7
Media/Entertain.	1,753	2,963	59.2
Software	6,206	11,074	56.0
IT Services	1,017	1,965	51.8
Retailing/Distribution	122	237	51.5
Medical Devices/Equip.	980	2,102	46.6
Healthcare Services	81	193	41.9
Bus. Products/Svcs.	91	218	41.8
Biotechnology	1,919	4,655	41.2
Industrial Energy	601	1,491	40.3
Consumer Prods./Svcs.	423	1,259	33.6
Networking/Equipment	212	672	31.6
Electronics Instrs.	95	326	29.1
Financial Services	160	566	28.2
Other	23	98	24.0
Total	14,793	29,580	50.0

Source: PWC MoneyTree

²CNN Money, "10 most inventive states", October 24, 2012, <http://money.cnn.com/gallery/smallbusiness/2012/10/24/states-patent-invention/>.

What's Wrong Structurally?

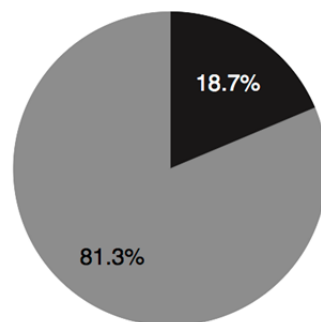
Not only have Californians benefitted unevenly from the economic recovery, there are also a number of long-term structural issues that persist in the state and pose a threat to future economic growth. Fortunately, as the recession fades, the opportunity to focus on these critical issues grows.

Hyper-cyclical Budgeting: Cyclically, the passage of Proposition 30 has helped raise needed public revenues as the economy gradually heals and home prices and incomes rise. However, the law has also made the state's General Fund more dependent on an even narrower segment of California's tax base by raising the top marginal income tax rates. While in an expansionary mode, with the stock market yielding solid returns, revenues are expected to over-perform. However, when the next eventual downturn hits the economy, it will yield even greater fiscal woes as incomes and financial markets inevitably contract. California's leaders have not displayed a serious commitment to reforming the state's tax structure in order to insulate against the business cycle. This includes revisiting Proposition 13, taxing the consumption of services and not just goods, and a host of other options that would enable California to lower marginal income and sales tax rates across the board.

Failure to Address Entitlements: California has yet to tackle its substantial long-term pension obligations at the state and local level. Together, CalPERS and CalSTRS represent nearly \$140 billion in unfunded liabilities—even after accounting for the recent stock market surge—and are still 24% and 33% unfunded, respectively. Some form of compromise between retirees and state and local governments is badly needed as these unfunded obligations represent more than one full year of General Fund receipts.

CEQA and Housing Costs: One of California's biggest challenges is the state's high cost of housing. The abuse of the well-intentioned California Environmental Quality Act (CEQA) plays a large role in driving up building costs by limiting and delaying construction projects. And with the recent surge in the real estate market, California has grown even more expensive relative to other states. California's most inexpensive metro areas are on par with the most expensive metro areas in places like Texas, while California's most expensive markets are quickly approaching median prices of \$1 million. That is well beyond the reach of the average Californian, and as a result, the state has experienced more out-migration among lower- and mid-income workers than among high-income workers. This worrisome trend deprives businesses of a strong mid-skilled workforce and makes it difficult to recruit talent because businesses can't afford to pay wages that would offer a desired quality of life (such as the ability to buy a home). Containing the excessive cost of housing should be a top policy goal, and reforming CEQA should be at the heart of that process.

U.S. Patent Activity, 1963-2013
California Punching Above its Weight



California Rest of U.S.

Source: U.S. Patent and Trademark Office

Education Gap Closing: California has historically been a “barbell” state with many high- and low-skilled workers, and a shrinking population of mid-skilled workers. It has always, however, had a strong contingent of residents on the highly educated end of the scale. And while California remains a state with a relatively educated population base, over the past decade or so, that education gap has slowly been closing as other states raise their levels of educational attainment more and faster. Striving to build and retain the most skilled workforce is critical to California maintaining its advantage in the high-tech sectors that drive so much of the state’s economic growth.

**Educational Attainment Levels
Population with a Bachelor's or Higher**

Location	2000	2012	Diff. (%)
California	26.6	30.9	4.3
Rest of US	24.1	28.9	4.8
Education Gap (%)	2.5	2.0	-0.5

Source: U.S. Census Bureau

Effects of Technological Change: Gauging and responding to technological change will remain a long-term challenge for California and for all states. Commercial real estate provides a strong example. With the ubiquitous nature of the Internet, wireless technology, laptops, smartphones, and tablets in today’s world, traditional relationships between employment and commercial absorption are breaking down as more workers telecommute, work remotely, or work on-site for their clients. As such, the job growth that used to propel new commercial construction activities, is expected to have a smaller and smaller effect on commercial markets in California in the future.

The Forecast

Beacon Economics is forecasting ongoing improvement in California’s economy through the life of the forecast in 2019.

- Employment growth will settle in at 2.5% by 2016 and the unemployment rate is expected to dip below 6% by mid-2017.
- Home prices will continue to grow over the next two years, although growth will cool to a 4% to 6% pace that is more consistent with income growth.
- As home equity rises and bank lending increases, home sales are also expected to turn around in 2015, rising by double-digit percentages next year.
- As the economy continues to heal, new construction activity will be stimulated in the residential market (190,000 new units forecast over the next two years) and the nonresidential market (4% growth forecast this year).
- Consumer spending is also forecast to continue its upward trajectory, growing by roughly 4% over the next two years.

Cyclically, things are improving. Whether focusing on employment, incomes, GDP, home prices, building permits, or taxable sales (among many other indicators), California’s economy is in growth mode. In fact, despite the state’s many challenges, California continues to lead the nation in many key ways.

California also faces critical challenges including education, infrastructure, housing costs, and the need to invigorate manufacturing. Tackled appropriately, California could climb even higher in the state rankings and become an even greater economic success.

CHAPTER 6

The Adult Budget Supervisor Tackles the 2014-15 California State Budget

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This article is based on information only through mid-August and
does not reflect subsequent developments

“It took decades for Brown to shake his image as uber-flaky. But he’s now become the ideal of “adult supervision” in Sacramento — something the state capitol sorely needed after Arnold Schwarzenegger’s bumpy tenure as ‘The Governor.’”

Commentators Sherry Bebitch Jeffe and Douglas Jeffe¹

In last year’s fiscal chapter for *California Policy Options*, we took a long view and traced the ups and downs of the California state budget going back decades. Since the past doesn’t change, we won’t repeat that history this time.² Indeed, our focus is on the first term of Jerry Brown’s second iteration as governor and especially the budget enacted for 2014-15. As every California school child knows – or should, anyway – Brown was governor in the late 1970s and early 1980s, serving two terms back then.³ He left office in January 1983 and, after a hiatus, began his second coming in state politics which included a stint as mayor of Oakland and as state attorney general.

Meanwhile, Brown’s former chief of staff, Governor Gray Davis, was recalled from his gubernatorial post in 2003 and succeeded by movie star Arnold Schwarzenegger who promised to fix the budget crisis of that era which was the root cause of Davis’ recall. Davis had benefited from the dot-com boom, which raised tax revenue during the first couple of years of his first term, but he suffered from the dot-com bust, which cut off the windfall. Even though Davis won re-election in 2002 against a weak candidate, he was recalled before the first year of his second term was to end.⁴ Schwarzenegger as governor benefited from the state’s housing boom, but budget woes returned when the boom turned to bust and the Great Recession cut into revenue. By the time Schwarzenegger left office to be succeeded by Brown, his (Schwarzenegger’s) unfavorable popularity ratings were about where Davis’ had been at the time of the recall.

In short, Brown’s challenge in his third term, beginning in January 2011, was to deal with the budget problem Schwarzenegger left behind in fiscal year 2010-11. Even in his first iteration as governor, Brown – despite his “New Age” persona – liked to be known as a fiscal conservative. The question we explore in this chapter is whether Brown has “fixed” California’s budgetary problems, at least from the vantage point of the budget enacted for 2014-15.

¹Sherry Bebitch Jeffe and Douglas Jeffe, “Why Hillary Clinton needs to follow a California dream,” *Reuters*, June 11, 2014. Note: The dates given for news articles cited in this chapter may vary between the online and print editions.

²Daniel J.B. Mitchell, “California’s Sleep Well Budget” in Daniel J.B. Mitchell, ed., *California Policy Options 2014* (Los Angeles: UCLA Luskin School of Public Affairs, 2014), pp. 53-104. Available at <http://issuu.com/uclapubaffairs/docs/californiapolicyoptions2014>

³There were no term limits during Brown’s first iteration. However, he ran for the U.S. Senate after his second term and lost. When term limits were later adopted, Brown’s two terms during his first iteration did not count, so he was free to run for governor again (for up to two terms).

⁴Davis ran TV ads aimed at the Republican primary in 2002 designed to undermine LA Mayor Richard Riordan’s candidacy. Riordan likely would have done better against Davis than primary winner William Simon.

We put “fixed” in quotation marks since what one governor and legislature do today can always be undone by some later administration. Perhaps the question might be better put by asking whether Brown succeeded in putting the state on a budget trajectory which, if continued, could avoid another state budget meltdown. To kill the suspense, the answer is that the state – despite Brown’s budgetary successes – remains in a precarious position for reasons Brown himself would likely acknowledge. Another downturn in the economy would produce another budget crisis. Nonetheless, Brown has established his public image as the adult supervisor in the room when it comes to the legislative budget process.

Budget 101

“Wisdom and prudence should be the order of the day.”

Governor Jerry Brown’s cover letter
to his January 2014 budget proposal⁵

State and local governments usually have what is called the “general fund” for day-to-day operating purposes. There are then a variety of other funds (really accounts) that are typically earmarked for specific purposes and which may have dedicated revenue sources of their own. California has over 1,100 such other funds, the most important earmarked for transportation and funded through a gasoline tax and other motor vehicle taxes.

When you hear about the state budget, the reference is typically to the general fund. The general fund is devoted heavily to education from kindergarten through higher ed and to social programs and the prisons. In some cases, especially K-14 funding, general fund expenditures are actually administered locally, e.g., by school districts. Even in such cases, however, the state may require the local administrators to follow various rules and/or direct them to particular purposes. The general fund also goes to support much of the state-level bureaucracy.

You can think of the general fund as a kind of state checking account. As long as there is money in the account, bills can be paid, and payrolls can be met, simply by writing a check. If the account is overdrawn and falls below zero, money must be borrowed to keep state operations going. Some of the borrowing can be internal; that is, borrowing from funds outside the general fund. When internal borrowing is used, however, the other funds are left with IOUs from the general fund instead of cash.

If too much internal borrowing occurs, the earmarked functions of the lending funds may be impeded. So the state can also borrow externally on a short-term basis. In California’s case, the most common form of borrowing to cover general fund overdrafts is through issuance of Revenue Anticipation Notes

⁵*Governor’s Budget Summary 2014-15*, January 10, 2014. Available at http://www.dof.ca.gov/documents/FullBudgetSummary_2014.pdf.

(RANs). RANs involve borrowing *within* a fiscal year which in California begins on July 1 and ends on the following June 30. They are used to smooth the seasonality of state tax receipts.

When there is a deep budget crisis, the combination of internal borrowing and RANs may be insufficient to cover all state bills. In such circumstances, the state can issue Revenue Anticipation Warrants (RAWs) which cross from one fiscal year to the next. Even with internal borrowing and access to RANs and RAWs, a budget crisis can become so severe that the state cannot pay all its bills. In that event, the state issues “registered warrants” – essentially IOUs – to those to whom it owes money.

Registered warrants essentially pay the involuntary creditor at a later date when monies are again available. Such events are rare but one occurred under Schwarzenegger in 2009. Some commentators might label the handing out of IOUs rather than paying all bills as “bankruptcy,” and during the Schwarzenegger episode there was much commentary to that effect about California. However, as a formal legal matter, there is no mechanism for a state to declare bankruptcy, unlike a local government or private organizations or persons.

Direct Democracy

“California's century-old ballot initiative system is cherished and cockeyed. What began as political reform — giving citizens the power of direct democracy — has become a tool of special interests and a plaything for nut jobs.”

Los Angeles Times columnist George Skelton⁶

California’s budget process is complicated by its tradition of “direct democracy,” the initiative, referendum, and recall, three reforms which date back to the “progressive era” of the early 20th century. In particular, Proposition 13 – passed by voters during Jerry Brown’s first term in 1978 – drastically cut and limited local property taxes making local jurisdictions dependent to varying degrees on state funding. School districts were especially affected. Prop 13 also required that any state tax increase pass by at least a two thirds vote of the legislature. This provision is still in effect and in fact has been tightened by later initiatives.⁷

Prop 98 of 1988 (in conjunction with another, later initiative) applies three formulas to determine the amount of funding required for K-14, generally (and loosely) described as earmarking around 40% of the general fund. The legislature can suspend the formula guarantee. But when it does so, the lost funding accumulates as a liability of the general fund sometimes termed by Sacramento policy wonks as the “credit card” to be paid in the future. When the budget outlook improves after a crisis, a large chunk of

⁶George Skelton, “Little initiative for change,” *Los Angeles Times*, February 16, 2012. Available at <http://articles.latimes.com/2012/feb/16/local/la-me-cap-initiatives-20120216>.

⁷There is a legal distinction made between a tax and a user fee. The two-thirds requirement applies to taxes, not fees. Voters tightened the definition of fees so that the legislature could not easily substitute fees for taxes.

the added revenue goes to K-14 to meet the Prop 98 formula requirements and to pay off the credit card.

Just as initiatives can constrain budgeting, they can also ease the rules. For example (and very important during Jerry Brown's second iteration as governor), voters in 2010 enacted Prop 25 which removed a Depression-era requirement that budgets had to be passed by at least a two-thirds vote of both houses of the legislature. The combination of Prop 13 and Prop 25 means that a simple majority of the legislature can pass a budget *unless it involves a tax increase via the legislature* in which case a two-thirds vote would be required. Governor Schwarzenegger and his predecessors could only enact a budget with a two-thirds vote which in practice meant passing a budget with some degree of bipartisan support. Since the Democrats now have a strong majority in the legislature, Brown had the option of ignoring Republican legislators once Prop 25 was enacted.

At one time in the pre-Prop 25 era, the few votes needed to achieve two thirds could be gotten from the minority party through political buy offs of one kind or another. Maybe a particular legislator was anxious to have some infrastructure improvement in his/her district funded in exchange for a vote. (These deals when made were always implicit for legal reasons, but they happened.) However, as California politics became more partisan, making such political deals became more difficult.

Term limits – enacted by voters in 1990 – may have been part of the problem. Legislators, knowing their careers in the assembly or state senate were limited, kept an eye on other state or local offices for which they might run when they were termed out. Under the traditional primary system (before voters modified it as will be discussed below), receiving a party nomination for subsequent career moves required remaining appealing to the median voter *in your party*, not the median voter in the relevant electoral district. Thus, inter-party cooperation became more and more difficult, deals were harder to cut, and lengthy delays in enacting a budget beyond constitutional deadlines became common, particularly during budget crises.

At this writing, Democrats have just under a two-thirds majority in the legislature. Absent Prop 25, Democrats could not pass a budget without a few Republican votes. With Prop 25, however, no Republican votes are needed unless a tax increase is involved. Note also that because of the direct democracy option, even when tax increases are involved in a budget, if voters rather than the legislature approve a tax increase, only a simple majority of the popular vote is needed.⁸ Thus, legislative Republicans can be completely bypassed for a budget approval, even one involving a tax increase, so long as the increase is done through the initiative process.

Of course, even with the Democrats having a strong majority in the legislature, Democrat Brown might not agree with those in his own party about key elements of the budget. Prop 25, however, puts

⁸As will be discussed later, if a constitutional amendment is needed, and if it is to be put on the ballot by the legislature (rather than by voter petition), a two-thirds vote of the legislature is needed.

pressure on the legislature by requiring them to forfeit pay for each day without a budget after the constitutional deadline for legislative action (June 15). The governor could veto the legislature's budget but legislators must enact one by the deadline or lose pay. There is some vagueness, however, in defining what a "budget" is or who should make that determination. We will come back to that point below.

Electoral Institutions

"No, (running for President is) not in the cards, unfortunately. Actually, California is a lot more governable."

Governor Jerry Brown⁹

California's "progressive" tradition has often centered on the weakening of political parties, seen by early 20th century reformers as inherently corrupt. California, for example, up through the 1950s, had a system of cross-filing in which candidates could run in the primaries of as many parties as they wanted. More recently, the sense by voters that partisanship in Sacramento was too strong led the success of two ballot propositions. One (Prop 11 of 2008) took redistricting after the 2010 Census of Population away from the legislature and put it in the hands of an independent citizens' commission. The objective was to avoid "gerrymandering" and to create more "swing" districts – essentially districts in which election of a Democrat or a Republican was not easily predicted. Whether the commission succeeded is still debated.

More important was Prop 14 of 2010, which created the "top-2" primary for state legislative and administrative offices. Under Prop 14, all candidates – not just those from a particular party – run initially in a single primary. Candidates may be labeled by their party, but they are all running to get the most votes. In the general election, the top-2 candidates (the ones who came in first and second) are pitted against each other. Indeed, the top-2 contest proceeds to the general election *even if a candidate in the primary achieved a simple majority* (unlike nonpartisan primaries often used in local California elections).¹⁰

Prop 14 was intended to produce more "centrist" candidates – particularly in the legislature – who in theory would be more prone to compromise than victors in a party-only contest. It was a reaction against budget gridlock that occurred before Prop 25's simple-majority budgets. In principle, even in

⁹Quoted in Seema Mehta, "Brown rules out presidential bid," *Los Angeles Times*, January 14, 2014. Available at <http://articles.latimes.com/2014/jan/14/news/la-pc-brown-rules-out-presidential-bid-20140114>. Brown ran for president three times earlier in his career.

¹⁰Litigation challenges to the top-2 primary have not been successful, although one is still pending at this writing. The fact that non-partisan primaries are common at the local level in California – and have been for a long time – complicates making a case against such systems at the state level. It might be noted that Governor Brown received a simple majority of the votes in the June 2014 primary but will nonetheless go on to face the number two vote getter from the primary in the November 2014 general election.

districts with a heavy majority of voters for one party, the minority would have a voice in the primary, and candidates would have an incentive to take account of the minority's views.

The incentives and strategies under Prop 14 are complicated. Although aimed at nonpartisan results, Prop 14 rewards a degree of party discipline. In a district in which there is a strong majority for one party, the minority party will do well by limiting (if it can) the number of its serious candidates. If too many candidates from the majority party run, they may divvy up the votes and not come in first or second. Thus, a Democratic district might end up with a choice between two Republicans if many Democrats ran as candidates in the primary. Or the reverse could happen.

On net, Democrats initially did better at the Prop 14 "game" than Republicans, thus achieving the two-thirds threshold at times in the legislature. The coming and going of legislators sometimes pulled the level below two-thirds, however, and scandals involving three (Democratic) state senators in 2013-14 dropped the level below two-thirds more permanently.¹¹ At this writing, it is unclear which party was able to play the Prop 14 game better in the 2014 election cycle.

The various propositions we have discussed give the impression of a popular thrashing around of the electorate. If the budget situation had remained strong, it is doubtful these changes would have been on the agenda. The electorate's impression of whether things are going along as they should in Sacramento is heavily affected by the condition of the budget. If there is a perception of crisis and if there is a stalemate causing budget enactment to be delayed, the impression that something needs to be done to change the system develops.

In a sense, there are two approaches voters could take in response to a perception that the legislature is too partisan. One approach is to try to make it less partisan through devices such as non-legislative redistricting and the top-2 primary. The other is to make it more functional, given partisanship. Allowing the legislature to pass budgets by a simple majority falls into that second category. Republicans and Democrats in the legislature may be far apart. Political science research suggests the legislature in California is more polarized than most.¹² But since Democrats command a majority in both houses of the legislature, allowing simple majority rule enables the legislature to function without gridlock.

¹¹Senator Roderick Wright was eventually convicted of not living in his district as required by state law. Senators Ron Calderon and Leland Yee were both indicted for taking bribes. Their trials are pending at this writing. Calderon's misdeed involved in part a state tax credit program begun under Governor Schwarzenegger to keep movie production in the state. The program is controversial since it amounts to an industry subsidy, and Calderon's involvement didn't improve its standing. However, the program continues at this writing and may even be enhanced.

¹²Boris Shor and Nolan McCarty, "The Ideological Mapping of American Legislatures," *American Political Science Review* (August 2011), Vol. 105, No. 3 pp. 530-551.

Table 1 shows the voter approval level of the state legislature in various time periods. During the dot-com boom, when money was pouring into the state treasury, approval ratings were relatively high. By the time of the Davis recall, there had been several years of budgetary crisis thanks to the dot-com bust. So approval dropped substantially. Approval recovered much of the lost ground by 2007 before the start of the Great Recession. During that recession, however, the crisis atmosphere surrounding the budget returned and by 2009, IOUs were being handed out. Not surprisingly, in that period the approval ratings of the legislature sank to an all-time low.

By 2013, Governor Brown had created the impression that the budgetary problems of California – if not fixed – were on the mend. In addition, the delays caused by the supermajority two-thirds requirement had ended, thanks to Prop 25. So voter approval was up again. A scandal involving three state senators who were suspended for misconduct caused a drop by mid-2014. But on the whole, the public perception remains that of an improved budget situation and the end of annual crises.

Brown's Initial Budget Approach

"No more smoke and mirrors on the budget. No empty promises... No new taxes unless the people vote for them."

Governor Jerry Brown, 2011 inaugural address¹³

Brown was elected in 2010 on a pledge that there would be no new taxes *without a vote of the people*. That pledge did not preclude a tax increase; it simply said any tax increase the governor might propose would be on the ballot. In effect, he was promising not to support (indeed, to veto) any tax increase that the legislature might enact by itself. So ballot approval for taxes would be needed.

However, the pledge did not indicate the method by which the tax increase would be placed on the ballot. Nonetheless, there were only two alternatives. The legislature could put the proposition on the ballot. But that approach would require a two-thirds vote (and, hence, some Republican support). Or an initiative could be used which wouldn't involve the legislature at all. Initiatives require a voter petition process, not a legislative process.

Newly-elected governors – including Brown – face an initial budgetary challenge. Under the state constitution, after being elected, they have to produce a budget proposal in early January for the next fiscal year. Thus, after the election in early November 2010, Brown had only a few weeks to prepare a budget for 2011-12 (July 1, 2011 – June 30, 2012). And he would have to live for six months with the budget signed by his predecessor for 2010-11.

Brown's first decision was probably based on his first iteration as governor. Back in the late 1970s and early 1980s, there was much more bipartisan cooperation in the legislature than exists today. Brown

¹³Inaugural address, January 3, 2011. Available at <http://governors.library.ca.gov/addresses/39-JBrown03.html>.

wanted to put to voters an “extension” of some temporary taxes enacted under Schwarzenegger. Putting the issue to voters would fulfill his campaign pledge of no new taxes without a vote of the people. The question, as noted, was how to put the tax extension issue before the voters.

Brown believed he could convince a handful of Republicans to support a ballot proposition – one put on the ballot by the legislature – that would give the proposed tax extensions an air of bipartisanship. As indicated earlier, however, using the legislative route to the ballot requires a two-thirds vote. He kept emphasizing to Republicans – who opposed any new taxes (or extensions) - that they did not have to support the tax extensions, only the idea of putting the proposal to the voters. Long story short, Brown did not succeed, despite offering a variety of concessions to Republican legislators.

While the January submission of a budget proposal is a constitutional requirement, there has developed a tradition – not a requirement – of the governor submitting to the legislature a “May revise.” The May revise is essentially a redrafted budget proposal that takes account of new information on the economy, tax receipts, etc., as well as the politics of what seems feasible. By the time Brown got to the May revise in 2011, without securing any Republican votes, the clock was running out on the time needed to put a proposition before the voters in the following November. More importantly, it had essentially run out on the second option, going the initiative petition route without involving the legislature.

As the June 15 deadline for the legislature to pass a budget (or to lose pay under Prop 25), the Democrats in the legislature panicked and passed something they called a budget. Brown vetoed it, but the legislative leaders argued that they had met their deadline. The state controller – John Chiang – who writes most state paychecks (except for the University of California) refused to pay the legislature on the grounds that what was passed wasn’t a full budget and had various technical problems.

Subsequently, after lengthy litigation, a court ruled that only the legislature – not the controller – could decide what a budget was, but it took months for that ruling to be made.¹⁴ In the meantime, both Brown and Chiang became folk heroes since the public interpreted their decisions as the result of an unbalanced budget. Brown and Chiang were perceived as standing up to a spendthrift legislature.

After the controversy died down, Brown and the legislative Democrats worked out a budget that simply assumed that \$4 billion in extra revenue would appear from somewhere in the course of the coming fiscal year, thus “balancing” the budget on paper. Chiang ruled that the new deal was a valid budget and thus a budget – with its phantom revenue assumption – was ultimately enacted for 2011-12. But Republicans had succeeded in blocking a ballot proposition extending the Schwarzenegger temporary taxes which therefore expired. On the other hand, they had also convinced Brown that he was not going to deal with them the following year.

¹⁴Even with the ruling, if some future controller decided to do what Chiang did on some rationale, there could be new challenges in court and, in the meantime, legislators would not be paid.

A Look at the (Cash) Numbers

“The budget is not just a collection of numbers, but an expression of our values and aspirations.”

Jacob Lew, U.S. Secretary of the Treasury¹⁵

Table 2 presents a selected California budget history on a cash flow basis. The legacy budget for 2010-11 that Brown inherited from Schwarzenegger in fact ran a small surplus (income > outflow). But the general fund was so overdrawn that the reserve in the general fund simply became less negative, dropping from -\$9.9 billion to -\$8.8 billion by June 30, 2011. Brown’s new budget - with its phantom revenue assumption and expiring Schwarzenegger taxes - not surprisingly turned out to be in deficit (outflow > income) and the reserve therefore became more negative (-\$9.6 billion as of June 30, 2012). In short, California’s budget crisis was not resolved by Brown in his first full budget year. Indeed, absent the revenue from the expired temporary taxes, the situation was worse. But thanks to Prop 25, at least the lengthy delays in enacting a budget were a thing of the past.

The next year Brown’s strategy had to adapt both to the tax expirations that had occurred and to the lesson he had learned about the degree of party polarization in Sacramento. His January 2012 budget proposal now involved new temporary taxes (not extensions) and would be taken to the electorate by the initiative process, thus bypassing the legislature. The new budget for 2012-13 would assume voter support, i.e., that the initiative – which eventually became Prop 30 – would pass. But there would be trigger cuts, especially to education, if it didn’t. Public opinion polls suggested that voters were especially concerned about education. The question was whether the threat to education, if the initiative were to fail, would induce voter support. Or would voters be angry about being made to face the threat?

There was some drama about negotiating what taxes would be raised temporarily and by how much. In the end, there was a small upward adjustment of the state sales tax and a significant personal income tax increase at the upper bracket level. We will skip the details and just note that despite weakness in the voter opinion polls, in November 2012, voters did enact Prop 30, despite a significant campaign against it.¹⁶ The combination of higher taxes and an economic recovery brought in a jump in revenue. The budget swung into surplus (income > outgo) as Table 2 shows.

However, the surplus was not large enough to eliminate the negative reserve (overdraft) in the general fund completely. The reserve finished the fiscal year on June 30, 2013 as -\$2.4 billion. Nonetheless,

¹⁵<http://www.brainyquote.com/quotes/quotes/j/jacoblew442942.html#Cu0Uq8JRmc6etuXU.99>

¹⁶There was a controversy and eventually litigation over hidden out-of-state funding of the anti-30 campaign generally viewed as coming from sources associated with the conservative Koch brothers. Ultimately, the committee in California was fined and terminated.

Governor Brown assured Californians when the 2013-14 budget was enacted for the next fiscal year that they could “sleep well” with the new fiscal plan.¹⁷

While Governor Brown might have been a bit premature in inviting a good night’s sleep, the 2013-14 budget as seen on Table 3 in the end ran a surplus (income > outflow) with a full year of Prop 30 money and further economic recovery. And the reserve for the first time in years was positive (+\$2.0 billion) as of June 30, 2014. By that time, of course, still another budget had been enacted, this time for 2014-15. As Table 2 indicates, that budget runs a deficit on a cash basis and ends with a negative reserve, although the official source documentation is unclear on the accounting treatment of cash flows in the context of the rainy-day fund.¹⁸

Background on Confusing Budget Methodology and Lingo Before Getting to 2014-15

“It looks like Gov. Jerry Brown took my advice and will use \$11 billion of the state’s surplus to help pay down California’s wall of debt instead of funding new programs.”

Former Assembly Speaker Willie Brown at a time
when neither the budget surplus nor the reserve
was anywhere near \$11 billion¹⁹

Our prior budget chapter for the 2014 edition of *California Policy Options* ended in summer 2013 after the 2013-14 budget was enacted. Here, we pick up the story leading to the adoption of the 2014-15 budget. One thing to note is on Table 2. The projection for cash flows in 2014-15 has outflow > inflow, i.e., a deficit, even adjusting for the creation of a separate rainy-day fund above and beyond the regular reserve in the general fund. The deficit is large enough on a cash basis to put the general fund reserve back into negative territory by June 30, 2015. Of course, whether that actually happens depends on the accuracy of the forecasts of spending and receipts.

Budgets are inherently forecasts and forecasts presume knowledge of the future which, of course, no one has. We will come back to this point below. It is important to note that budget forecasting is not quite the same as general economic forecasting. The latter tries to make the best estimate possible of the future. The former is a political process, and it may sometimes be seen as beneficial to tilt toward optimism and sometimes toward pessimism.

¹⁷Quote from Dan Walters, “Budget Won’t End Fiscal Angst,” originally in *Sacramento Bee*, June 28, 2013. The link is now at <http://www.sanluisobispo.com/2013/06/28/2563830/budget-wont-end-fiscal-angst.html>.

¹⁸The cash flow statement for 2014-15 which is the basis of Table 2’s ending reserve for that year is opaque, even by California standards. Starting reserves are taken from the June 2014 statement of the state controller. Receipts are as shown in the source table minus \$104 million from the Special Fund for Economic Uncertainties.

Disbursements are as shown in the source table minus \$3,183 million transferred to the rainy-day fund. The implicit reserves at the end of fiscal year 2014-15 are the starting reserves plus receipts minus disbursements.

¹⁹Willie Brown, “Governor paying down state’s debt,” *San Francisco Chronicle*, January 11, 2014. Weekly column available at <http://www.sfgate.com/bayarea/williesworld/article/Governor-paying-down-state-s-debt-5134878.php>.

There is also the matter of budgetary accounting. Up to this point, we have focused on cash accounting when budget figures have been examined. As accountants will point out, cash accounting can be misleading in that changes in timing that have little significance can affect results. For example, whether a check arrives or a payment is made on July 1 rather than June 30 really has no importance for fiscal health. Yet with the fiscal year arbitrarily ending on June 30, cash accounts will be affected.

To deal with the issue of arbitrary timing, accountants generally use an “accrual” rather than a cash approach. Accrual methodology attributes flows of money into and out of the treasury on the basis of when such flows are due to occur rather than when they actually occur. In theory, this approach should reduce the effect of arbitrary timing of transactions and give a more reliable picture of the budget situation.

What happens in theory and what happens in practice, however, is not the same thing. The official date on when things are due to occur under accrual can be manipulated. For example, at one point during the state’s most recent budget crisis, state payrolls were made to be due on July 1 rather than June 30 so that one fiscal year would show as expenses only 11/12ths of actual yearly employee expense.

The actual budget that the legislature adopts is on an accrual basis and ultimately the legislature and governor determine the details of the accounting methodology. That is, how accrual is carried out is not fixed but is at the discretion of the legislature and governor. So there can be cosmetic adjustments to affect public perceptions of the fiscal situation. Moreover, it would be helpful if the state would undertake to publish a reconciliation of its cash and accrual accounts. California makes no effort to do so, however. Thus, a key element of that overused word – transparency – is missing from the state’s accounts.

California also is rather loose with regard to the terminology used to describe what is happening in its fiscal affairs. Up to this point in this chapter, we have used the word “deficit” to mean a situation in which the inflow of funds is less than the outflow. We have used “surplus” to mean the reverse. This usage is consistent with common English parlance and with the use of those terms at the federal level. In short, surplus and deficit are terms that describe *flows* of funds during a specified time period, typically a fiscal year. We have used the term “reserve” in this chapter to refer to stocks rather than flows, i.e., to a snapshot of how much is in an account such as the general fund on a particular date, especially the date of the end of the fiscal year, June 30 (which is the same as the level in the account at the beginning of the next year, July 1).

In contrast to our descriptive approach, California officials often use vague terms such as budget shortfall, budget gap, or even budget hole during fiscal crises and even in good times. But such terms can mix stocks and flows. In particular, a budget may be deemed to be in balance, or even in surplus, as long as some money is projected to be left in the reserve at the end of the fiscal year. That is, outflows can be greater than inflows and yet the situation might be described as a surplus or in balance as long as some money is left in the till at the end.

The problem is that describing such a situation in reassuring terms is misleading. If you keep drawing down your checking account (outflow > inflow), you know that the situation cannot persist since you will eventually run out of money. Corrective action is needed before the account goes to zero or less. If you wait until the last penny is gone, you will have a crisis; your checks will bounce or you will have to borrow more and more to cover them. So you don't want to describe outflow > inflow with terminology which suggests that all is well. What is true for you as an individual is – or should be – true for the state.

As it happens, the governor's budget for 2014-15 provides a perfect example of this problem. Figure 1 reproduces a chart from that budget. You find the words shortfall, deficit, and balance all used in ambiguous ways on that chart. Note that the negative bar on Figure 1 for 2009-10 is around -\$40 billion. Ask yourself, could a budget in the neighborhood of \$100 billion annually actually run a deficit of that amount, if "deficit" is used in its standard English meaning? And if such a deficit did arise, would anyone in practice be able to fix it? Surely, the answer to both questions is "no."

The problem is even more egregious than the chart shows. At the time, i.e., in 2009-10, there was a tendency to sum the prior two bars with the -\$40 billion and to talk about a deficit of around -\$60 billion. If a -\$40 billion deficit is implausible – at least in common English usage – think about the added implausibility of -\$60 billion! Such looseness in terminology clouds understanding of the budget problem. How many term-limited legislators, do you suppose, actually understood what the budget situation was back then? For that matter, how many understand it now?

The Making of the 2014-15 Budget: A Numerical View

"Given the vagaries of the business cycle, and particularly the volatility of capital gains income, we must be ever vigilant in the commitment of public funds."

Governor Jerry Brown's cover letter
to his January 2014 budget proposal²⁰

Problematic as Sacramento's accounting practices may be, as noted above, the numbers that the legislature and governor look at in enacting a budget are on an accrual basis (as they define it). So we will use the official accrual figures in what follows, keeping in mind that they cannot be – or at least aren't – reconciled with the cash numbers. Table 4 shows the numerical history of the 2014-15 budget as it was presented to the legislature using accrual methodology. We will first look at those official numbers and then look at the events that surrounded the making of that budget. Recall, however, that budget making is an incremental process.

Each annual budget is really an adjustment to what happened in the prior year(s). Over time, the state has established various programs that are ongoing commitments as a practical matter. No budget starts from scratch. Thus, the story of the 2014-15 budget really started well before that budget began to be

²⁰Governor's Budget Summary 2014-15, January 10, 2014. Available at http://www.dof.ca.gov/documents/FullBudgetSummary_2014.pdf.

put together. And the budget story goes on into the indefinite future. Perhaps it is more correct to say that we will be looking at the year leading up to the enactment of the 2014-15 budget, a somewhat arbitrary time period but one which begins where the 2014 budget chapter for *California Policy Options* left off.

The 2014-15 budget cycle is shown on Table 4. It is made more complicated than usual by Governor Brown's proposal for a rainy-day fund, essentially an implementation of an idea that began under Governor Schwarzenegger but was never really put into effect. As we have noted, the general fund has a "natural" reserve, just like your checking account. If you continually spend less than you put in, the balance in your checking account (and the reserve in the general fund) becomes bigger. Whatever you accumulate is available for a rainy day. Put another way, there is already a *de facto* rainy-day fund inherent in the normal budgetary arrangements. You don't need a formal rainy-day fund to have an informal rainy-day fund.

However, the Schwarzenegger-Brown idea was to create another separate fund to hold some of the reserve. By formula, a certain amount would be put away in good times for use in periods of hard times. Note, therefore, there is nothing that happens under an explicit, formula-driven separate rainy-day fund that couldn't happen without it. For example, when Earl Warren was governor in the 1940s and early 1950s, he had a policy of building up the (ordinary) reserve and referred to the accumulated reserve as a rainy-day fund, even though there was no mandatory formula or separate account.

The idea, therefore, of a rainy-day fund of the Schwarzenegger-Brown variety is that if it is enshrined by law into fiscal affairs of the state, it is more likely that monies will in fact be put aside. Brown proposed that a constitutional amendment be provided to the electorate in November 2014 that would establish the mandate and formula. Since that date is after the writing of this chapter, we cannot know for sure whether voters will approve it. But since saving for a rainy day sounds like a good idea, and since Brown is currently popular and likely to be reelected, it is also likely that his rainy-day fund will be enacted by voters. In any event, it is built into the 2014-15 budget as an assumption.

A complication arises because, as a technical matter, diverting money into the rainy-day fund, i.e., transferring it from the general fund to the rainy-day fund, is treated as a diversion in the official budget accounts. But that is not a good way to think of accumulating money.²¹ Officially, the revenue that would otherwise go into the general fund doesn't arrive there but instead goes directly into the rainy-day fund. Hence, on Table 4 we present the general fund as the accounts have it and then adjust the numbers so that putting money into the rainy-day fund is treated in the same way as any reserve accumulation. That is, we include the diverted revenue as a receipt of the general fund and sum together the regular reserve and the rainy-day fund.

²¹As noted earlier, it is unclear whether or not the cash flow statement that accompanies the budget diverts the rainy-day fund deposit from receipts. The text here refers to the official accrual presentation of the budget.

Typically, the annual budget cycle starts not with the governor but with the Legislative Analyst's Office (LAO). The LAO is a non-partisan arm of the legislature that provides the legislature with a neutral analysis of various policies including the budget. Its history goes back to the early 1940s when the legislature felt at a disadvantage to the governor because it lacked an analytic capacity. Standard practice is that the LAO in November comes up with a current services budget estimate. The estimate assumes that no changes in fiscal policy are made on the tax side or the spending side, and so the budget just continues "as is." Of course, there are likely to be changes. So the current services budget is simply a base to which changes can be applied.

Table 4 shows the LAO's estimate in the left-hand column. It includes no rainy-day fund since that would be a change in policy and because Brown did not unveil the specifics of his plan for such a fund until after the LAO reported. Any increase or decrease in the general fund shows up in the reserve. The LAO estimated that the 2014-15 reserve on July 1, 2014 would be \$3.1 billion. The net of receipts and outflows would be a surplus of \$3.3 billion. If that were to occur, by the end of the 2014-15 fiscal year, the reserve would have risen to \$6.4 billion ($\$3.1 + \$3.3 = \6.4). Put another way, if nothing were done by the legislature and the budget was left on auto pilot, the existing reserve would more than double.

The governor released his initial budget which included an explicit rainy-day fund as well as the ordinary reserve in early January 2014. Note first that although his budget came later than the LAO's estimate, both the LAO and the governor's Department of Finance had to be looking at the same economic background. Thus, the fact that his starting reserve for the 2014-15 fiscal year (July 1, 2014) was \$4.2 billion rather than the LAO's \$3.1 billion had to mean one of two things (or a combination of both). It had to mean that either there was some change in accounting methodology by the governor, or there was more optimism about how the economy would perform during the second half of the fiscal year.

As for the fiscal year itself, the governor assumed less revenue would come in than did the LAO. Since there were no major changes proposed on the tax side, the governor was shifting to a more conservative (pessimistic) estimate than the LAO on receipts. On the spending side, he assumed more expenditures than the LAO's current services estimate. So either there would be policy changes that would raise spending, or he was assuming that current services would simply cost more than the LAO had projected. With the removal of the deposit into the rainy-day fund from the spending level, whereas the LAO had assumed spending of \$104.4 billion, the governor assumed \$106.2 billion.

If you spend more than you take in during the course of a year, the money you have left "in the bank" will decline. The "bank" at the beginning of the 2014-15 fiscal year was just the ordinary reserve which – as noted – the governor assumed would be \$4.2 billion.²² The bank at the end of the fiscal year (during which voters were assumed to enact an explicit rainy-day fund) consisted of the ordinary reserve (\$1.9 billion) and the new rainy-day fund (\$1.6 billion). So there would be a drop in total reserves

²²As Table 4 notes, an error was later found by the Legislative Analyst in this estimate. We retain the original numbers to be consistent with the official document.

(ordinary reserve + rainy-day fund) to \$3.5 billion. That is, the governor was proposing a deficit in the 2014-15 budget of -\$0.7 billion, at least on paper, when saving in the rainy-day fund is added back in.

Did the governor really expect a deficit? It appears that he likes to make a conservative revenue estimate as a way of constraining the legislature. Brown assumes that if the legislature is told by him that there will be less money available than the LAO projects, the legislature will be more frugal. It therefore will be “surprised” to find that by year’s end there is in fact more in the bank than had been forecast. So maybe instead of the small deficit, he really had in mind a small surplus. Either way, there wouldn’t be much of a cushion in the regular reserve plus rainy-day fund if there was a downturn of the economy or some other emergency.²³

Figure 1 gives some idea of the precarious nature of the budget by using historical data from Brown’s first iteration as governor. By 1977-78, he had built up the reserve to roughly a third of general fund spending, a huge amount. But then Prop 13 came along, and local governments and school districts had to be bailed out by the state. The reserve fell almost in half.

At that point, the U.S. economy went into a double-dip recession. In three years, a reserve far in excess of anything recently proposed disappeared and went negative the following year. The resulting budget crisis was left to Brown’s successor, Republican George Deukmejian, to resolve. One point, not shown on the chart, is that budgetary volatility in California is now greater than it was back then due to greater present-day state dependency on the income tax and capital gains taxation.²⁴ Therefore, a given percentage in reserves relative to general fund spending now is less protective than the same percentage would have been in the past.

So much for the distant past. As noted earlier, California has a tradition of the governor submitting a May Revise budget which reflects updated forecasts and political developments. The May Revise typically is close to the final budget. The legislature adjusts it incrementally in a negotiation with the governor, but drastic changes are generally not made. In May 2014, the revised budget assumed a somewhat lower starting reserve than in January of \$3.9 billion. Spending was up a bit, and revenue was, too. On net, however, the deficit adjusted for the contribution to the rainy-day fund was about what it was before (\$0.8 billion instead of \$0.7 billion). But with starting reserves a bit lower, so, too, were ending total reserves.

After negotiations with the governor, the legislature produced an on-time budget only marginally different from the May Revise. The governor made minor cuts with his line-item vetoes and the final

²³A year earlier, the credit rating agency Standard & Poor’s had criticized the practice in California of political adjustment of revenue assumptions in budgeting. Obviously, that practice continues.

²⁴The state sales tax omits services which causes receipts to grow more slowly than the overall economy as consumers spend more of their incomes on services. See California Legislative Analyst’s Office, “Why Have Sales Taxes Grown Slower Than the Economy?,” August 5, 2013. Available at <http://www.lao.ca.gov/reports/2013/tax/sales-tax/sales-tax-080513.pdf>.

budget took effect. With a deficit adjusted for the assumed rainy-day fund, total reserves were projected to fall from \$3.9 billion at the beginning of the fiscal year to \$3.0 billion by June 30, 2015. Not much of a cushion and a falling one at that! And this development is occurring during an economic recovery when the reverse should be happening! The total reserve (regular plus rainy-day) should be rising.

What about the more distant future? The final budget includes estimates of total reserves (ordinary reserve + rainy-day fund) out to 2017-18 that can be seen on Figure 3. These estimates assume no economic downturn occurs over the period shown. Thus, they assume nine years of no recession since the Great Recession ended in 2009, and the economy began its recovery. Such a scenario is not impossible but it would be unusual. In the 1990s, we had a record period from 1991 to 2001 of continuous expansion. So the chart's assumed recovery is pushing towards a long-term record. Nonetheless, even if we have an uninterrupted expansion to 2018, total reserves (ordinary reserves + rainy-day fund) would be only five percent of budget spending, a level that could quickly disappear in any downturn thereafter.

Events and Issues Rather than Numbers: Summer-Fall 2013

...(T)hat's something that interests me, to try to understand ... to get a real world feel of what's under my responsibility..."

Governor Brown saying he was planning to tour California²⁵

So far, we have traced the development of the 2014-15 budget numerically. But there had to be a political decision process that – in conjunction with economic trends – produced those numbers. So let us trace some of the highlights in the year leading up to its enactment.

Around the time that a budget is being enacted, Sacramento's attention becomes more and more focused on fiscal affairs. After the legislature passes a budget, there is a bit of suspense over what the governor might line-item veto. However, because Governor Brown negotiates deals with the legislative leaders, he doesn't veto much.²⁶ With only a simple majority needed to pass a budget, and with Republicans largely cut out of the process, the deal is more or less the final product although there may be some minor gubernatorial trimming.

²⁵"Jerry Brown seeking 'real world feel' of government," CapitolAlert blog of *Sacramento Bee*, October 2, 2014. Available at <http://blogs.sacbee.com/capitolalert/latest/2013/10/jerry-brown-seeking-real-world-feel-of-government.html>.

²⁶One oddity was that he vetoed an earmark he had insisted on of \$10 million for online education at UC after having gotten pledges from the UC administration to spend the money for that purpose without a mandate to do so. UC also dropped a plan to raise tuition for most graduate students, apparently on the ground that the legislature and governor were opposed.

Prisons and Realignment

"Dangerous prisoners that belong in state prison continue to be released early, time and time again, to return to our communities and endanger our families and friends."

Fontana Police Chief Rod Jones²⁷

Nonetheless, once a final budget is in place, vetoes and all, other fiscal issues surface or re-surface. And there is often some summer follow up on the enacted budget. In particular, after the 2013-14 budget was signed, there remained longer term issues such as prison realignment – the shift of prison inmates to county jails – largely due to court decisions related to overcrowding. A blip up in crime rates raised the issue of whether realignment was at fault.²⁸ The state tried, without much success, to persuade the courts to delay implementation of mandates to reduce overcrowding of prisons. And the governor and the state senate president differed on the latter's plan to craft some kind of legislative compromise that might be seen favorably by the courts.

If there had been a substantial chance that Republicans could beat Brown in his (presumed) bid for re-election in 2014, there might have been more heard about realignment and its alleged potential for raising crime rates. There were in fact three candidates or assumed candidates on the GOP side for governor by the summer of 2013. One was Abel Maldonado, the former Lieutenant Governor. He *did* talk about realignment but his candidacy went nowhere, and he eventually dropped out. That left Tim Donnelly, a "tea party" state assembly representative whom establishment Republicans were anxious not to have at the head of the ticket.²⁹ And there was Neel Kashkari, a relatively unknown former U.S. Treasury official under President George W. Bush and an administrator of the federal TARP bailout

²⁷Quoted in Phil Willon, "Gov. Jerry Brown's prison program blamed in fatal stabbing," *Los Angeles Times*, April 9, 2013. Available at <http://articles.latimes.com/2013/apr/09/local/la-me-fontana-slaying-20130410>.

²⁸In principle, the state was supposed to be pushing the least dangerous prisoners to county jails. But where such jails were themselves at capacity, the result was a release of persons who otherwise would have been occupying county jails back on to the streets. Apart from issues regarding moves of prisoners to county jails, there were problems in the state prisons beyond overcrowding. For example, it was found that female prisoners had been subject to tubal ligations (sterilization) improperly. In two prisons, a court ordered a movement of prisoners to other facilities due to exposure to valley fever. Cases of valley fever led to litigation and claims against the state. During the summer of 2013, there was also a hunger strike in some prisons protesting the use of solitary confinement as a disciplinary device. At one point, a UN human rights investigation was threatened. Meanwhile, at the local level, although counties complained about overcrowding and early releases, none of them had completed construction of new jails despite funding for that purpose provided by the legislature in 2007.

²⁹Donnelly was associated with the anti-illegal immigration Minuteman movement and so potentially would reinforce problems the Republicans have had with Latino voters in California. At one point in his campaign, he toyed with pushing for recall of some Latino legislators. On the other hand, there could be intolerance on the anti-Donnelly side. For example, when a Latina actress endorsed Donnelly in a YouTube video, she was ostracized and lost a part. Nonetheless, establishment Republicans saw Donnelly as a loose cannon who could embarrass the party, even in out-of-state races, and wanted someone with a more moderate image to head the ticket.

program during the Great Recession. Kashkari at the time – compared with Brown – lacked sufficient resources to put out a message that would attract substantial voter attention.³⁰

Transportation

“I would take the (high-speed rail) dollars and redirect it [sic] to other, more pressing infrastructure needs, and I am not the only Democrat that feels this way.”

Lieutenant Governor Gavin Newsom announcing
opposition to Governor Brown’s high speed rail project³¹

Governor Brown’s push to create a high-speed rail service between southern California and the Bay Area continued to create resistance. His Republican gubernatorial election opponent Neel Kashkari referred to it repeatedly as the “crazy train.”³² Both of these issues – prisoner realignment and high-speed rail – had budget connections, apart from their implications for crime control and transportation policies. Although prisoner realignment was largely court driven, the official rationale was that it was best to leave matters to local governments whenever possible, a concept for the policy which the governor termed “subsidiarity.” But other aspects of policy pulled in the reverse direction, i.e., toward central control.

The high-speed rail project was a state effort despite the complaints of the lieutenant governor and others that transportation money should go to local transit rather than for long-distance intercity travel. There was also local resistance to high-speed rail in the Central Valley even though construction there – if nothing else – would create needed jobs.³³ Freight railroads were concerned that the project – which in part was to use their corridors (although not their tracks) – would interfere with their operations. And in the Bay Area, some locals opposed a specific segment of the proposed route. Meanwhile, the

³⁰Former Republican minority leader in the state senate, Jim Brulte, had been made chair of the California Republican Party with the seeming agenda of removing tea party control. He created a stir by accepting some donations from public sector unions. His placement as head of the party suggested that of the three GOP candidates, establishment Republicans would not support Donnelly (which is what happened).

³¹Quoted in “Newsom Changes Mind On High-Speed Rail, Wants Money Redirected,” *CBS San Francisco*, February 14, 2014. Available at <http://sanfrancisco.cbslocal.com/2014/02/14/newsom-changes-mind-on-high-speed-rail-wants-money-redirected/>.

³²“Neel Kashkari hits California Gov. Jerry Brown on ‘crazy train,’” CapitolAlert blog of *Sacramento Bee*, January 28, 2014. Available at <http://blogs.sacbee.com/capitolalertlatest/2014/01/neel-kashkari-hits-california-gov-jerry-brown-on-crazy-train.html>.

³³Republicans generally opposed the project on the grounds that it was unneeded and likely to cost more than the \$68 billion official estimate, as large infrastructure projects often do. See Bent Flyvbjerg, Massimo Garbuio, and Dan Lovallo, “Delusion and Deception in Large Infrastructure Projects,” *California Management Review*, vol. 51, no. 2 (Winter 2009), pp. 170-193. Democrats were more likely to make the argument that funding should go to local transportation. As will be seen below, ultimately the high-speed rail’s requirement for state funding gave Democrats in the legislature some negotiating room with the governor.

project seemed to see-saw between favorable and unfavorable court rulings.³⁴ Still some preparatory work got under way during the summer of 2014, although no track was laid and, in fact, acquiring the initial Central Valley right-of-way had yet to be accomplished.

Local transit became embroiled with a dispute with the federal government involving labor relations and pension issues. Brown had entered the governorship in 2011 pledging to come up with a plan to deal with unfunded liabilities in public-sector pensions. Eventually, a bill was passed that reduced benefits for new hires and made other money-saving changes.³⁵ Federal law, however, required such matters to be negotiated with unions rather than imposed. After threats by the feds to withhold funding for local transit operations, the legislature produced a bill providing a transit exemption.

The Bridge

“To be sure, some of the longest delays were not the fault of the bridge builders. Rather, they were the product of political infighting at the very highest levels of California state government.”

Legislative report on Bay Bridge deficiencies³⁶

The Bay Area, incidentally, was home to another project that seemed local but in fact was being administered by the state, the replacement of the Bay Bridge. That project was beset by a seemingly endless procession of defective components and poor administrative oversight by CalTrans. There were also allegations of suppression of engineer/whistleblowers within the agency who pointed to deficiencies.

For a time, it appeared that the new bridge segment would not open by Labor Day 2014, although eventually it did, defective or not. The governor managed to be out of town for the opening ceremony and left it to the lieutenant governor to do the honors. He also opposed a Bay Area movement to name the bridge after former assembly speaker and mayor of San Francisco, Willie Brown. But eventually, the

³⁴One issue was whether the proposed system – or at least its initial segment which was slated just to run within the Central Valley – met the requirements of a voter-approved bond issue for a high-speed rail. But aside from the legal issues, there were concerns about management of the project such as the high cost of consultant fees.

³⁵Various ballot initiatives on the pension issue have been submitted although none has gotten to the ballot at the state level. Noteworthy during the 2013-14 fiscal year was an initiative sponsored by maverick San Jose Mayor Chris Reed. Ultimately, he could not develop enough support to put the initiative on the ballot in 2014. Whether such support might be developed for 2016 is unknown at this writing. Although he is a Democrat, Reed supported the Republican candidate for state controller in 2014.

³⁶Quoted in Dan Walters, “Political hubris plagues Bay Bridge, other big public projects,” *Sacramento Bee*, August 5, 2014. Walters points out that a relatively modest structure that had been planned by the state was upgraded to a more complex (an aesthetically appealing) design at the insistence of local political figures.

bridge was so named. The bridge's problems raised doubts about how well the high-speed rail would be constructed if done by the state.³⁷

Local Development

"The self-financing nature of these agencies worked fine when the goal was to make over "blighted" areas in postwar urban cores and to build affordable housing. But after voters adopted Proposition 13 property tax limits in 1978, cities and their redevelopment agencies became increasingly aggressive in establishing project areas and discovering "blight." What better way, after all, to cling to scarcer tax dollars than by setting up a mechanism that kept more of those dollars at home instead of in Sacramento?"

Editorial in the *Los Angeles Times*³⁸

In an earlier budget cycle, the state had abolished local redevelopment agencies – officially because they were judged to be inefficient but in fact because they were seen as diverting property tax revenue from school districts which the state then had to backfill under Prop 98.³⁹ As part of the 2013-14 budget cycle, another local development tool – the enterprise zone – was ended because the zones diverted tax revenue from the state.⁴⁰ About a billion dollars per annum was expected to be saved by the state once the zones were fully phased out.

However, phasing out proved to be difficult. Projects could not be stopped that were already underway, so some means of continuing what was in the pipeline had to be created. Local governments rushed to put projects in the pipeline during the transition period and then fell into disputes with the state over which projects were truly underway.

Nonetheless, there were periodic efforts to re-establish some version of redevelopment and of enterprise zones, none of which have succeeded as of this writing. What was offered to replace the

³⁷The state has also had costly problems with developing large computer systems for such purposes as handling state payrolls, keeping track of fair housing complaints, and processing unemployment insurance claims. Such efforts have been beset with well-publicized failures.

³⁸"California redevelopment agencies, the sequel," *Los Angeles Times*, September 22, 2013. Available at <http://articles.latimes.com/2013/sep/22/opinion/la-ed-redevelopment-20130922>.

³⁹The saga of redevelopment involved an earlier budget compromise while the redevelopment agencies chose to litigate the deal. The end result, however, was a court decision which killed redevelopment. Had the agencies not gone the legal route and had just accepted the political compromise, they would still be in business.

⁴⁰Redevelopment agencies were largely funded through a diversion of incremental property tax revenue. The agencies would coordinate and provide funding for a redevelopment project. The project would raise property values in the affected area, and the extra property tax revenue would then go to the agency to repay loans used for the redevelopment projects. Thus, whether the property tax that went to the agency was a diversion from the state, or whether it was revenue that would not have existed absent the redevelopment, was debatable. In any case, the agencies were abolished. Enterprise zones promised preferential tax treatment to firms that set up businesses in the defined zones. So they directly cost the state money. Generally, research has not found the zones to be especially effective in job creation. They tended to shift activity from one area to another rather than create new jobs in total.

zones was in part a system that created a state pool state tax credits (slush fund?) that could be handed out to firms seen as potential job creators or preservers. It was not clear that replacing local discretion in creating enterprise zones with discretionary subsidies to politically connected or politically appealing firms at the state level was a net improvement.

Education

“Instead of prescriptive commands issued from headquarters here in Sacramento, more general goals have been established for each local school to attain, each in its own way. This puts the responsibility where it has to be: In the classroom and at the local district. With six million students, there is no way the state can micromanage teaching and learning in all the schools from El Centro to Eureka – and we should not even try!”

Governor Jerry Brown, 2014 State of the State address⁴¹

Another issue that the budget created – and which required subsequent attention after the 2013-14 budget enactment – was a revision of funding for K-12 known as the Local Control Funding Formula. Traditionally, school districts had been funded on the basis of average daily attendance. In addition, special programs were sometimes added for disadvantaged students. Governor Brown had proposed that the payment per pupil should vary with the level of student disadvantage, a concept that was enacted as part of the budget process.

This concept was generally endorsed by school reformers. However, implementing a concept requires specific funding formulas. Moreover, some school districts would benefit and others would lose – especially over time – under the new approach, making implementation a contentious process.⁴² Apart from the new formula, the state was also in a dispute with the federal government regarding teacher testing. The dispute could in theory have resulted in significant lost federal funding. In practice, the feds have tended to back down when in conflict with the largest state. But it was unclear at the time whether California would receive another dispensation (although it eventually did).⁴³

Community colleges are operated by local districts with some state supervision. Their funding is included in the Prop 98 formulas which cover K-14, not just K-12. Nonetheless, community colleges are definitely the neglected afterthought when it comes to Prop 98 monies. Yet they are increasingly being pushed to be the money-saving solution to the cost of higher education. Students can attend community college at modest cost – community college tuition in California tends to be low compared with other states – and then transfer to four-year institutions for the remainder of their college

⁴¹Delivered January 22, 2014. Available at <http://gov.ca.gov/news.php?id=18373>.

⁴²See Legislative Analyst’s Office, *An Overview of the Local Control Formula*, updated December 2013. Available at <http://www.lao.ca.gov/reports/2013/edu/lcff/lcff-072913.pdf>.

⁴³The state produced its own new test of student achievement that was to be administered through a computer system. After a federal dispensation was received, the actual administering of the test was hindered by computer glitches.

educations. Community colleges are also seen as providers of vocational education for students who are not focused on four-year bachelor's degrees.

Despite these goals, the community colleges experienced substantial cutbacks during the Great Recession and its aftermath. The number of classes offered was limited for budget reasons, thus preventing students from advancing. Some colleges experimented with offering more sections of key courses at higher tuition. The idea was that some students would pay to take the additional sections and their enrollment in the extra sections would open up more slots in the regular sections for those who couldn't pay or didn't want to pay. Initially, these experiments were shut down. But the legislature began to consider authorizing such differential tuition schemes for some community colleges during the summer of 2013 and the bill was eventually signed into law.

At the UC and CSU levels, apart from encouragement of transfers from community colleges, there was more rhetoric than solutions for rising tuition. In effect, tuition at both systems was frozen, at least for a year or so, in deference to what the governor considered an implicit promise to the electorate when Prop 30 was passed. But other than requirements for data and "performance" measures (such as time to graduation), the main thing demanded was more online education.⁴⁴ The chief driver in recent boosts in tuition was cutbacks in state support during the Great Recession and its aftermath. On a longer term basis, the 1960 Master Plan's promise of free tuition had long before been eclipsed by diversion of funds to other state priorities. Back in 1960, for example, there was no Medi-Cal program.

Local Fiscal Distress

"A well-managed bankruptcy is how we'll get on firm footing for not just the next year but the next 20."

San Bernardino Mayor Carey Davis⁴⁵

Apart from redevelopment concerns, city governments also had fiscal issues. The Great Recession had adversely affected local governments as well as the state. But the state tended to squeeze the locals to deal with its own fiscal problems. One recently-created small city actually announced it would disincorporate after expected revenue was removed by state action.⁴⁶ Moreover, some locals in the high mortgage foreclosure areas of the state were disproportionately affected as property taxes and other revenue declined. Thus, while the perception at the state level was one of fiscal recovery, Stockton and

⁴⁴California's Little Hoover Commission was a supporter of performance measures. See its report, "A New Plan for a New Economy: Reimagining Higher Education," October 2013. Available at <http://www.lhc.ca.gov/studies/218/Report%202013.pdf>. But the idea was also percolating down from the federal government which wanted to rate higher education institutions.

⁴⁵Quoted in Ryan Hagen, "San Bernardino's bankruptcy reaches two-year mark, quietly," *San Bernardino Sun*, July 31, 2014. Available at <http://www.sbsun.com/government-and-politics/20140731/san-bernardinis-bankruptcy-reaches-two-year-mark-quietly>.

⁴⁶The city was Jurupa Valley in Riverside County.

San Bernardino were in formal bankruptcy proceedings.⁴⁷ Rialto and Adelanto declared fiscal emergencies.

No one at the state level was offering special assistance to these stricken cities although in the case of San Bernardino, the city's suspension of its payments to CalPERS, the large state-run pension plan, threatened to undermine the state's funding model for that program.⁴⁸ In the Stockton case, one of the city's creditors was litigating over the refusal of the local government there to cut pensions. Again, that position – if upheld – could undermine CalPERS.⁴⁹ (Carson and Sacramento's fire district did receive a legislative dispensation to cut CalPERS retiree health benefits, not pensions, pursuant to concessions negotiated with local labor unions.)

Local complaints about Sacramento showed up in some northern California counties as a move to secede from the state. This idea had surfaced as early as the 1940s, when there was a move to create a "State of Jefferson" out of some northern California and southern Oregon rural counties. The complaints this time ultimately morphed into a proposition (that at this writing is undergoing a petition vote count). It was financed by a billionaire – who apparently couldn't think of anything better to do with his money – and would divide California into six new states.⁵⁰

Local governments in California were dependent in varying degrees on property taxes when Prop 13 came along in 1978. Under Prop 13, property is reassessed to market value only when it changes hands. For residential homes, the point of changing hands is obvious; it is the sale of the home to another owner.

For businesses, however, exactly when and if property changes hands is obscured by corporate ownership. Deals can be constructed so that ownership effectively changes, but the corporate entity that owns the property for legal purposes is unchanged. From time to time, this issue is spotlighted by particular commercial transactions that attract public attention. Usually, there are calls for some type of "split roll" system that would treat commercial property differently from residential. A constitutional amendment would be required to establish a split roll system.

⁴⁷Municipal fiscal distress could lead to local political turmoil. In San Bernardino, there was public anger at the city council and a move to recall some members.

⁴⁸It has generally been thought that CalPERS had the authority to obtain the pension contributions it specified and that local governments could not refuse to pay, even in bankruptcy.

⁴⁹Some local governments, notably the City of Bell, had produced outsized pensions due either to pension "spiking" (artificial inflation of final salaries) or just outrageously high salaries. As these cases came to light, CalPERS in some cases reduced the pensions. Bell's city manager ultimately went to jail for illegally inflating his salary and those of other officials. Other officials were also prosecuted.

⁵⁰It appears too late at this writing for the initiative to appear on the ballot in November 2014, but – if enough signatures are found valid – the initiative could appear in November 2016. In Southern California, Orange County has been involved in a dispute with the state regarding property taxes that goes back to the County's bankruptcy in the mid-1990s, after it speculated in financial "derivatives" markets. Since that time, the County has periodically pushed to correct what it sees as an inequity. But it hasn't pushed for secession from the state!

There were some real estate transactions that focused attention on the issue in summer 2013. Eventually, a tentative deal among key interest groups was made to redefine by legislation what changing hands in the commercial sector would involve, averting a possible push for a full-fledged split roll. But the deal fell apart before the legislation could be adopted, and at this writing no subsequent deal has been reached.

State Finances

“Schwarzenegger said he was sorry that most of (his latest) movie was being filmed in New Orleans, but that’s where the tax credits are these days.”

Willie Brown’s weekly column⁵¹

There were also aftershocks of the Great Recession for the state. It lost a court case regarding cuts made in the Medi-Cal (Medicaid) program in 2009 affecting rural areas. Enrollment in Medi-Cal was slated to increase under the federal Affordable Care Act (“Obamacare”). Indeed, at this writing there are some estimates that three out of 10 Californians will eventually be under Medi-Cal. But in the summer of 2013, questions were just beginning to be raised about how well the state could manage its health insurance exchange, Covered California.

As it turned out, compared to the fiasco that developed initially at the federal level in creating an exchange for states that refused to create their own, California’s problems with Covered California were dwarfed.⁵² Nonetheless, there were problems in such areas as getting information to Medi-Cal about those who signed up under Covered California. In addition, low Medi-Cal reimbursement rates meant that many doctors won’t take Medi-Cal patients, so that access to care can be limited.⁵³

Furloughs of state employees undertaken during the Schwarzenegger period had ended but there was still some residual litigation surrounding those actions. There was also litigation over a fire-fighting fee the state imposed as a budgetary measure in certain rural areas where the state provides protection.⁵⁴ CalFire became involved in a controversy over a “secret fund” that apparently had diverted \$3.7 million to an off-books nonprofit entity. And there was litigation over a plan developed by the Schwarzenegger administration but cancelled by Brown that would have sold off state office buildings and then leased them back. In essence, the plan was a (very costly) indirect way of borrowing. But some investors who were going to buy the buildings wanted to force the state to make the cancelled sale.

⁵¹ Willie Brown, “Schwarzenegger hasn’t terminated action-hero career,” *San Francisco Chronicle*, August 2, 2014. Available at <http://www.sfgate.com/bayarea/williesworld/article/Schwarzenegger-hasn-t-terminated-action-hero-5664866.php>. Willie Brown is the former mayor of San Francisco and state assembly speaker.

⁵² The federally-created website essentially failed to operate when it was put online.

⁵³ “Why Medi-Cal sign-ups crashed,” *Orange County Register*, June 4, 2014. Available at <http://www.ocregister.com/articles/cal-616819-medi-says.html>.

⁵⁴ The fee is indexed to inflation so that it rises periodically, thus automatically engendering renewed opposition.

The state is constitutionally required to provide funding to local governments for functions it mandates they carry out.⁵⁵ During the budget crisis and its aftermath, the legislature looked for mandates to eliminate. Basically, it sought functions that it thought local governments would continue to carry out at their own expense, even if the state mandate ceased. One of these functions was providing public documents under the state's equivalent of the federal Freedom of Information Act.

When the legislature tentatively revoked this mandate, there was a public outcry. How could you be sure the locals would continue to provide documents? To still the protests, the legislature put on the ballot a constitutional amendment that effectively would mandate local provision of public documents but without state money to do so. The proposition eventually appeared on the June 2014 ballot and was approved. It is unlikely that voters understood that they were approving an exception to the general rule that the state must pay for what it mandates.

Environment

"California can't keep pushing a climate change agenda if more states and countries don't do the same thing. You can't do a carbon price all by yourself forever."

Governor Jerry Brown⁵⁶

There were elements of policy that would become, or could become, important in the future. California has a greenhouse gas reduction policy that began in the Schwarzenegger period and includes a mechanism known as "cap-and-trade." In a sense, greenhouse gas cap-and-trade programs set a market price on carbon emissions. Cap-and-trade sets a maximum amount of allowable greenhouse gas emissions which declines over time. Businesses that emit greenhouse gas must buy permits allowing specified amounts of emission. They can buy them from businesses that undertake "green" technologies that reduce emissions.

The state also sells permits and thus receives revenue from the program which is earmarked for green uses. Despite Brown's sometime skepticism about the program – see the quote above – this revenue became relevant as part of the funding mechanism for the high-speed rail project. But in the summer of 2013, the ability of the state to run a cap-and-trade program was being challenged in court although permission to go ahead with the plan was eventually granted.

Governor Brown signed a bill regulating – but nevertheless permitting – "fracking" in oil production.⁵⁷ California is a significant oil producing state. In the early 20th century, it was the home of an oil boom.

⁵⁵The requirement to reimburse locals is part of Prop 4 of 1979.

⁵⁶Quoted in David Siders, "In private meetings with Carlos Slim, others, Jerry Brown encounters a 'more critical' Mexico," *Sacramento Bee*, July 30, 2014. Available at <http://www.sacbee.com/2014/07/30/6594343/in-private-meetings-with-carlos.html>.

There were prospects of a second early 21st century oil boom held out by proponents of fracking. Oil production could conceivably become a source of state finance if taxed, which might make up for loss of revenue when the Prop 30 temporary tax increases expire.⁵⁷

The difficulty is always that although environmental protections are popular in California, paying in one way or another for such protections is not so popular. It's great to limit greenhouse gas emissions but not if gasoline prices rise (a likely effect of cap-and-trade). Water should be cleaned up and protected but not if taxes or water bills rise. Caught up in such contradictions, political decision-makers tend to choose middle paths, e.g., regulate fracking but don't kill it and its potential to general revenue and jobs.

Water

"Whiskey is for drinking; water is for fighting over."

Quote often attributed to Mark Twain⁵⁹

There had been plans going back to the Schwarzenegger era to put a water bond on the ballot. But the bond had been repeatedly delayed when legislators felt it would not be enacted due to the fiscal crisis brought on by the Great Recession and because earlier versions contained controversial "pork." California's water issues were compounded by drought conditions that became more and more noticeable by 2013-14. During Brown's first iteration as governor, he had endorsed a "peripheral canal" project in northern California. The project failed at the polls due to its depiction in the north as a water-steal by the south and by lack of sufficient enthusiasm in the south to overcome northern opposition.

This time around, instead of a canal there were to be twin tunnels. Although plans had been known for some time, Brown did not become specific about the proposal until late 2013. The tunnels were said to be for environmental benefits, however, and did not directly address the drought issue. As in the case of other issues, water is polarizing and not just on north-vs.-south lines. Republicans like dams – although euphemisms such as water storage facilities are used. Democrats seem not to like dams which are seen as anti-environment.

Apart from ideology, for any deal on water bonds to be successful, there needed to be complicated negotiations between environmentalists, farm interests (roughly 80 percent of the surface water supply

⁵⁷Fracking involves injection of liquids at high pressure underground to force out oil. There have been concerns that the practice could contaminate groundwater and stimulate earthquakes.

⁵⁸Tom Steyer, a wealthy businessman who has environmental leanings has said he plans to push for an oil extraction tax, presumably via legislation or initiative. Steyer successfully sponsored Prop 39 in 2012 which was aimed at taxation of out-of-state corporations. Various oil tax initiatives have been proposed, but without financial backing to collect signatures, they have gone nowhere.

⁵⁹Like many great quotes, no one can quite point to where or if Twain said it. Available at <http://www.twainquotes.com/WaterWhiskey.html>.

goes to agriculture), and public water authorities. And there is always the nasty issue of how the bond issue is to be paid off. Will the burden of the payoff fall on taxpayers as a general obligation of the state or on water users? Opposition from significant players can doom a ballot proposition authorizing a bond issue.

Ultimately, facing a deadline for putting a bond on the ballot, the governor and legislature put a bipartisan bond issue on the November 2014, albeit one that was “tunnel neutral,” i.e., arranged so that it neither supported nor banned Brown’s water tunnel proposal.⁶⁰ At the same time, Brown let it be known that he opposed efforts in the legislature to propose a bond for school construction – effectively killing those efforts. The concern was that voters would be wary of adding to state debt if confronted with two state bond proposals.

Scandal

“Once again, the Senate has been tarnished by another FBI raid of a senator's Capitol office.”

Republican senate minority leader Robert Huff
after the indictment of Democratic Senator Leland Yee⁶¹

Given the Democrats’ tenuous hold on a two-thirds majority in the legislature, it would not have taken much for that supermajority to be lost. As noted earlier, it was lost as scandals involving three Democratic state senators began to emerge. One was charged with living outside his district and ultimately convicted. Two others were essentially charged with bribery. All were suspended, killing the supermajority.

Still compared with the federal government, California looked to be a model of sound fiscal policy. When the federal government shut down in fall 2013 due to the usual House-Senate gridlock, Sacramento shined in comparison to Washington, D.C. Indeed, the state refused to take over funding of Yosemite during the federal shutdown, even on a temporary basis. Washington didn’t bail out California during the state’s budget crisis; why should the state bail out a federal park? So while federally-operated parks were inaccessible, state parks were conspicuously open. One-party rule in California looked much better than the two-party confrontation nationally. At least (thanks to voter intervention via direct democracy), California had a budget, not just an on-and-off continuing resolution.

⁶⁰The legislature had repeatedly postponed a bond of over \$11 billion negotiated in 2009 which was widely seen as “pork” laden and unlikely to be passed by voters. Brown conceded on the tunnel issue and emphasized that he wanted a bond of substantially less than \$11 billion. The approved substitute bond was about \$7.5 billion and included about \$2.7 billion for dams sought by Republicans.

⁶¹Quoted in “A guide to Leland Yee corruption scandal: ‘Shrimp Boy’ to guns,” *Los Angeles Times*, March 28, 2014.

Winter's Budget

"It isn't time to just embark on a whole raft of new initiatives, and that's the problem."

Governor Jerry Brown in discussing his initial 2014-15 budget⁶²

It is traditional, as the date of the governor's January budget unveiling approaches, for there to be pre-budget leaks from the governor about what his budget will contain and from the legislature and interest groups about what they would like it to contain. In late 2013 and early 2014, the process began. The Legislative Analyst, as we noted earlier on Table 4 predicted that the 2013-14 budget was in surplus and would thus end with a larger reserve than originally projected when it was enacted. Democrats in the legislature began suggesting in public that more should be spent on education including pre-school and social programs.

And others picked up the demand. The chief justice of the state Supreme Court noted the need for more judicial spending. CalPERS, the giant state pension system, let it be known that it would be hiking rates which would affect the state and many local governments that use the system.⁶³ The movie industry pushed for increased state film credits. Brown indicated that his budget when released would feature an explicit rainy-day fund. And the idea of using cap-and-trade funds for his high-speed rail project also was surfaced. Discussion of Brown's water tunnel project became more heated. Brown also signaled that he would not support an oil extraction tax in 2014 which he termed "not the year for new taxes."⁶⁴

The Unveiling

"The state is now on its most stable footing in more than a decade."

Governor's January 2014 budget proposal⁶⁵

As had happened on another occasion, due to a computer mistake, Brown's budget appeared on the Internet before it was supposed to be announced, resulting in a hurried news conference. Despite the

⁶²Quoted in Dan Smith, "Jerry Brown pledges caution despite budget surplus," CapitolAlert blog of *Sacramento Bee*, January 9, 2014. Available at <http://blogs.sacbee.com/capitolalertlatest/2014/01/jerry-brown-pledges-caution-despite-budget-surplus.html>.

⁶³CalPERS covers most state employees other than UC (which has its own pension system). It also covers many local jurisdictions. Teachers are covered by another plan: CalSTRS. The municipal bankruptcy of Detroit and a court ruling that pensions could be cut in that city may have added to pressure on CalPERS to push up the rates it charged.

⁶⁴Quoted in David Siders, "Jerry Brown rejects oil tax push," CapitolAlert blog of *Sacramento Bee*, January 9, 2014. Available at <http://blogs.sacbee.com/capitolalertlatest/2014/01/brown-rejects-oil-tax-push-saying-time-not-right-for-new-taxes.html>.

⁶⁵*Governor's Budget Summary, 2014-15*, January 10, 2014, p. 2. Available at <http://www.ebudget.ca.gov/2014-15/pdf/BudgetSummary/FullBudgetSummary.pdf>.

advance leaking, when the budget was (prematurely) released, there were some surprises. Brown expressed some willingness to consider a revival of local redevelopment arrangements which had been scrapped in an earlier budget cycle. Earthquake fault mapping by the state would be accelerated. UC and CSU were asked to prepare 3-year budgets and not to raise tuition. On the other hand, the specifics of a plan for dealing with the large underfunding of the state's teachers' pension plan, CalSTRS, wasn't a component of the budget although Brown promised to do something about it later. On the other hand, some complaints were heard about things that were in the budget such as expanded prison capacity.

The leaked items also appeared, notably a rainy-day fund and cap-and-trade funding for high-speed rail.⁶⁶ One surprise – although not immediately relevant – was that the rainy-day fund was to be two funds, one for the Prop 98 world (K-14 education) – and the other for the rest of the general fund. However, the K-14 segment would not operate until a so-called maintenance factor was paid off and other conditions were met related to the Prop 98 formulas. It thus appeared that the mechanism proposed would be unlikely to contribute to the K-14 reserve under most circumstances.⁶⁷ (As will be noted later, the precise trigger for the K-14 reserve was modified around the time of the May revise, along with other aspects of the proposal.)

The inclusion of a K-14 rainy day fund caused some opposition to form in the education community because Brown's state-level K-14 rainy-day fund came with limits on local reserves. Local districts wanted to have the freedom to hold their own reserves and were dubious that a state-level reserve would be a full substitute in practice. Brown's rainy-day fund was focused on saving bursts of capital gains revenue, the most volatile element in budgetary receipts (but also, therefore, the hardest to predict). Another surprise was that although the governor was generally negative about the disbanded local redevelopment agencies and attempts to revive them, he proposed a limited version that could deal with affordable housing and other state goals.

Period for Dissection

"In general, setting aside money for a rainy day is exactly what the state should be doing when revenues are soaring, as they are now."

Legislative Analyst's Report on the governor's January budget proposal⁶⁸

⁶⁶The rainy-day fund proposal was actually a replacement for a constitutional amendment originally negotiated in 2010 that was due to be placed on the ballot in 2014. Among other elements, it would raise the cap on the rainy-day fund from 5% to 10% of general fund revenues. Note that on Figure 3 of this chapter, we show projected total reserves as a percent of spending, not revenue. However, the two will typically not be very different over the long run. The figure shows that by 2017-18 with assumed steady economic growth in the state, reserves relative to spending get only to 5%.

⁶⁷Legislative Analyst's Office, *Budget Reserve Proposals*, April 28, 2014, p. 8. Available at http://www.lao.ca.gov/handouts/state_admin/2014/Budget-Reserve-Proposals-042814.pdf.

⁶⁸Legislative Analyst's Office, *The 2014-15 Budget: Overview of the Governor's Budget*, January 13, 2014, p. 5. Available at <http://www.lao.ca.gov/reports/2014/budget/overview/budget-overview-2014.pdf>.

Once the budget is unveiled, an interim period between the January budget and the May revise begins. Basically, the governor's proposal is dissected by the legislature in hearings with the assistance of the Legislative Analyst's Office (LAO). The LAO produces a general analysis of the overall budget and then churns out analyses of various components. In principle, the LAO is bipartisan and simply outlines issues and options. However, it is an entity of the legislature – not the administration – so it tends to direct legislative attention toward options that put matters more under legislative control and less at the discretion of the governor or administrative agencies. And it feels freer to critique what the governor proposes than what is trending in the legislature. Thus, the LAO raised some legal concerns about the governor's limited redevelopment plan. And it expressed doubts about whether the best use of cap-and-trade funds from an environmental perspective was the high-speed rail project.

The interim period is also a time during which political reactions to the budget are made known. In particular, state senate leader Darrell Steinberg let it be known that universal pre-school was one of his major priorities. That proposal tended to conflict with the cautionary notes sounded by Brown about adding new programs that could become a burden to the state during the next economic downturn.

Because 2014 was a gubernatorial election year, it might have been expected that budget and other related issues would begin to be drawn into the politics of the race. But the only political race at the governor level was within the GOP between Donnelly and Kashkari. Both candidates seemed to be competing for the honor of being defeated by Brown in November. Under the top-2 primary system, Brown – who made a low-key announcement in late February that he would seek re-election – would clearly come out on top since he had no opposition among any serious Democratic opponents. The candidate with the next most votes would be one of the two Republicans, since there were no other significant Republicans in the contest. Brown and either Kashkari or Donnelly would then go on to the general November 2014 election contest.

Both Donnelly and Kashkari sought to make an issue of the drought – not enough advance planning and not enough dams, a literal rainy-day remedy. But Brown announced some drought funding and declared an emergency. (Later, during the summer, the governor and a bipartisan group of legislators negotiated a water bond for the November 2014 ballot.) In any event, voters did not seem to blame the incumbent governor for the weather, and the drought issue didn't seem to reach public consciousness during the primary season, at least in the big urban areas. Administration of whatever water cutbacks and rationing might occur was left to water authorities

The drought issue did not really grab Sacramento until the summer of 2014 after the budget for 2014-15 had been enacted, and the issue of what kind of water bond might be presented to the voters came to the fore. Brown seemed also to escape blame for the woes of the Bay Bridge which now shifted to demolition problems in taking down the old bridge. Environmentalists claimed that Brown was too friendly to oil fracking (a potential future source of state revenue when the temporary taxes of Prop 30 expire). But the two GOP candidates were sympathetic to fracking and so could not make an issue of it.

Public pensions might have been a budget-related issue in the gubernatorial contest, but Brown had pushed through a pension reform prior to his earlier 2012 campaign for Prop 30, the temporary taxes. Groups favoring more pension reforms looked to San Jose Mayor Chris Reed who was proposing a ballot initiative. But Reed did not receive the financial backing needed for such a campaign. He abandoned his initiative, at least before 2016, on grounds that the descriptive title and language for it composed by the attorney general was misleading.

The result was that the GOP primary contest ended up focused on Donnelly and Kashkari and what they had to say about each other. Both candidates debated on the John and Ken (conservative) KFI radio program in Los Angeles, but Governor Brown declined to participate, complaining about the format.⁶⁹ The state budget and Brown's proposals were not much mentioned, although both candidates opposed governor's high-speed rail project. Donnelly seemed to have more informal support than Kashkari at the Republican state convention, but neither candidate got an official endorsement, really a victory for Kashkari under the circumstances.

Donnelly continued to have problems with such personal issues as owning an unregistered handgun, failing to report campaign funding properly, and having an unpaid tax bill on a business he owned that had failed. He referred to his rival as "Cashkari" because of his earlier role in administering the TARP bailout at the U.S. Department of the Treasury under the George W. Bush administration. Donnelly also accused Kashkari of having favored Shariah law. (Kashkari is of Indian origin and is a Hindu, not a Muslim.) At one point in the contest, Donnelly's campaign manager quit.⁷⁰

Kashkari, as noted earlier, had the support of establishment Republicans such as former California governor Pete Wilson who didn't want Donnelly at the top of the ticket. Out-of-state Republicans also opposed Donnelly – such as former presidential candidate Mitt Romney and GOP operative Karl Rove. There was fear that he would have negative spillover effects outside California. Donnelly referred to them all scornfully as "country club" Republicans.⁷¹ The upshot was that Kashkari had financial support plus his own money for TV and other advertising and ultimately prevailed (for the second spot behind Brown) in the June primary.

⁶⁹Despite Brown's expressed concerns, it might be noted that during the 2010 gubernatorial election, Brown did appear on the John and Ken show. Indeed, in part because John and Ken seemed to dislike Republican Meg Whitman, she received rougher treatment than Brown on the program.

⁷⁰Although Donnelly tended to be libertarian in attitude, he supported expanding California's tax credit for filming and the redevelopment agencies that Brown had earlier eliminated.

⁷¹Quoted in Carla Marinucci, "Tim Donnelly: I'm a threat to the GOP 'country club,'" *San Francisco Chronicle*, May 15, 2014. Available at <http://www.sfgate.com/politics/article/Tim-Donnelly-I-m-a-threat-to-the-GOP-country-5478654.php>.

The final tally was Brown 54.3%, Kashkari 19.4%, Donnelly 14.8%, with the remaining votes going to minor candidates.⁷² However, the news media, perhaps because of the colorful nature of the Donnelly campaign, became more focused on the Donnelly-Kashkari contest as a contest and less on the issues. After the primary, Kashkari tried to reframe the focus on Brown by issuing debate challenges – which until mid-August were largely ignored.⁷³ Then Brown agreed to a single debate in early September 2014. Kashkari did succeed in insulting former Governor Schwarzenegger by saying the problems of his regime were due to Schwarzenegger's desire to be loved.⁷⁴ The question for Kashkari was whether Republican donors from what Donnelly had termed "country club," were willing to finance a significant Kashkari campaign, once Donnelly had been defeated.⁷⁵

Governor Brown's main interaction with Republicans was not with Kashkari or Donnelly but with their party's minority leaders in the legislature. Although the governor did not need GOP votes to pass a budget, he did need them to put a proposition on the ballot for the rainy-day fund which was assumed in the budget – a step requiring a two-thirds supermajority. His problem was that there was slated to be on the ballot, thanks to a budget crisis era deal several years before, a rainy-day fund proposition which Republicans back then favored that differed from what he wanted.

However, Brown could argue to Republicans – who had insisted on the old proposition as part of a budget deal during the Schwarzenegger period – that his (Brown's) version involved still more saving. In other words, he calculated that his proposal was more attractive to the conservative Republican legislators than their own earlier version. Brown called a special session of the legislature to deal with the rainy-day fund issue in mid-April. In negotiations with both Republican and Democratic leaders in the legislature around the time the May revise was unveiled, he worked out a modified version of the rainy-day fund proposal that received bipartisan support. (Brown during the summer of 2014 also had to deal with Republican legislators concerning a water bond he wanted on the ballot. But those negotiations came after passage of the 2014-15 budget and didn't directly deal with the budget.)

Like the period leading up to the January budget proposal, as the calendar moves toward the May revise, there is a tendency to try to make a case for funding and generally to test what the governor might or might not accept. Some cities explored putting an initiative on the ballot to restore a more

⁷²Data from the California Secretary of State available at <http://www.sos.ca.gov/elections/sov/2014-primary/pdf/33-governor.pdf>. Note that under the top-2 procedure, although Brown had a majority of the votes, the general election in November 2014 would still be held with Brown vs. Kashkari as the choices.

⁷³Former assembly speaker and mayor of San Francisco Willie Brown suggested that if Brown wouldn't debate Kashkari, maybe Lieutenant Governor Newsom could do it. See Willie L. Brown, Jr., "Gavin Newsom ought to debate Neel Kashkari if governor won't," *San Francisco Chronicle*, August 9, 2014. Available at <http://www.sfgate.com/bayarea/williesworld/article/Gavin-Newsom-ought-to-debate-Neel-Kashkari-if-5679069.php>.

⁷⁴Seema Mehta, "Kashkari criticizes Schwarzenegger, says he 'needed to be loved,'" *Los Angeles Times*, July 17, 2014. Available at <http://www.latimes.com/local/politics/la-me-kashkari-20140718-story.html>.

⁷⁵The concerns about Donnelly as an embarrassment had he gotten on the November ballot seemed confirmed when he announced a protest to a visit by the president of Mexico.

extensive redevelopment regime than the governor might accept. But ultimately no such initiative emerged. Reports surfaced about needed highway maintenance, but no new road repair programs resulted. While tuition at UC and CSU was supposed to be frozen, some CSU campuses imposed new “student success” fees. They were not penalized for doing so. Although the governor had pushed for more online education at UC as a way of holding down costs, UC president Janet Napolitano said publically that such technology was merely a tool and not a big cost saver.⁷⁶

As it turned out, online education and student fees were not the main issues that roiled the legislature in the period between the January budget proposal and the May revise. Parents were becoming concerned about admissions – particularly to UC – with reports about enrollment of foreign and out-of-state students who paid full tuition and thus helped make up for prior cuts in state spending. In the mid-1990s, voters had banned affirmative action in university admissions under Prop 209. The legislature moved toward putting a proposition on the ballot that would have repealed 209. However, there was an outcry from the Asian community that feared a loss of educational opportunity, and the legislature quickly retreated.

Brown seemed able to remain above the fray, leaving controversy to the legislature. It could be argued, for example, that concern about limited admissions of state residents to UC was a reflection of budget cuts during the previous crisis that were not being fully reversed in the governor’s budget. Certainly, Kashkari and Donnelly could have made that point – but they didn’t.⁷⁷ Brown felt free to criticize other Democrats, since he needed no help in the primary and was unlikely to need any in the fall general election.

When Lieutenant Governor Newsom – in introducing Brown’s State of the State speech – went on about the virtues of change, Brown began his remarks by saying that he personally valued “continuity.” When asked to evaluate the presidency of Bill Clinton, Brown said that Clinton in retrospect had “handled his job with a level of skill that hasn’t been met since,” thus lumping Barack Obama with George W. Bush as less skilled.⁷⁸ Similarly, he lumped former Democratic governor Gray Davis with Arnold Schwarzenegger, stating that both had left a legacy of budget problems which he (Brown) was now resolving.⁷⁹

⁷⁶Jeong Park, “Initiative for online education in California slackens,” *UCLA Daily Bruin*, April 10, 2014. Available at <http://dailybruin.com/2014/04/10/initiative-for-online-education-in-california-slackens/>.

⁷⁷Kashkari did say he opposed affirmative action during this episode. But when the legislature pulled back, the issue of affirmative action disappeared although the budget for higher education remained an issue.

⁷⁸Maureen Dowd, “Palmy Days for Jerry,” *New York Times*, March 22, 2014. Available at <http://www.nytimes.com/2014/03/23/opinion/sunday/dowd-palmy-days-for-jerry.html>. Chris Megerian, “Gavin Newsom enjoys spotlight before yielding it to Brown,” *Los Angeles Times*, January 22, 2014. Available at <http://www.latimes.com/local/political/la-me-pc-gavin-newsom-jerry-brown-state-of-the-state-20140122-story.html>.

⁷⁹Michael Finnegan, “Brown says rising sea levels could force costly move of LAX,” *Los Angeles Times*, May 13, 2014. Available at <http://www.latimes.com/local/political/la-me-pc-brown-sea-level-airports-20140513-story.html>.

The May Revise

"I am pleased to see Governor Brown once again show great caution in his revised budget plan... Time will tell if the governor can get his fellow Democrats in the legislature to embrace this same spirit of spending restraint..."

Republican Assembly minority leader Connie Conway⁸⁰

As the quote above suggests, Brown's main problem in moving from his May revise to an actual budget enactment was not with the Republicans, who were out of the loop anyway due to Prop 25. Republicans might have exercised leverage regarding their needed votes to put the rainy-day fund on the ballot, but they generally favored the concept and had agreed to a deal on the ballot proposition before the May revise was released. Brown's problem was with the Democrats who saw leverage in his high-speed rail proposal and its need for cap-and-trade money. The Democrats were also encouraged in pursuing higher spending than Brown proposed by the Legislative Analyst who projected somewhat more revenue than the governor's Department of Finance.⁸¹ The Analyst also suggested that Brown's estimates of Medi-Cal costs were overstated.

There were hints that rail funding would depend on increased social spending relative to what the May revise had proposed. Senate President Darrell Steinberg said that the rail project was "going to be a much tougher sell this time." Steinberg also said that Democratic legislators "have more than lifted to meet the governor's agenda. It's time he does a little lifting to meet our priorities."⁸² In particular, Steinberg cited a need for expanded pre-school education. Adding to the pressure to increase spending was the media release by the state controller of cash received by the state during July-April (and later July-May) of the 2013-14 fiscal year which showed receipts exceeding the governor's January projection by around \$2 billion.⁸³ The idea, present in the Legislative Analyst's forecast, that the fiscal outlook was rosier than the governor suggested was therefore reinforced.

Enacting a Budget

"We all know the governor wants high-speed rail. It becomes a bargaining chip."

Democratic State Senator Jim Beall⁸⁴

⁸⁰Quoted in "Rapid response: Gov. Jerry Brown's May budget revise," CapitolAlert blog of *Sacramento Bee*, May 13, 2014.

⁸¹Legislative Analyst's Office, *The 2014-15 Budget: Overview of the May Revision*, May 16, 2014. The Legislative Analyst noted, however, that if there were extra revenues, they would be largely absorbed by K-14 under the operation of Prop 98. The report is available at <http://www.lao.ca.gov/reports/2014/budget/may-revision/overview-may-revision-051614.pdf>.

⁸²Quoted in Chris Megerian, "Senate leader says Brown's budget proposal falls short," *Los Angeles Times*, May 14, 2014. Available at <http://www.latimes.com/local/political/la-me-pc-california-budget-steinberg-20140514-story.html>.

⁸³Receipts, however, were not appreciably above the level of the prior fiscal year through April and through May 2014.

⁸⁴Quoted in Chris Megerian, "Bullet train funding is bargaining chip in state budget debate," *Los Angeles Times*, May 30, 2014. Available at <http://www.latimes.com/local/la-me-pol-state-budget-20140531-story.html>.

With only a simple majority needed for passing a budget, with Republicans having already signed on to the rainy-day fund plan, and with no general economic crisis to cut into revenues, budget enactment was anti-climactic. One columnist described the last-minute negotiations before the June 15th legislative deadline for budget enactment as “old fashioned horse trading, back scratching, and leveraging.”⁸⁵ Republicans, however, were not part of the deal making; one complained that their having to Google elements in the budget absent any other information source was “a terrible way to enact a state budget.”⁸⁶

What was ultimately enacted was a compromise. Brown got his cap-and-trade money for high-speed rail, but not as much as he requested. Senate President Steinberg got his pre-school augmentation, but not what he originally hoped would be a universal pre-school program. Brown’s proposed ban on overtime for home care workers didn’t fly. But limits were placed on such overtime. UC and CSU budgets were enacted more or less as Brown proposed but with a trigger added that could have resulted in an additional \$100 million (but didn’t).⁸⁷ Brown won a long-term funding deal for the underfunded CalSTRS teacher retirement plan.

Brown’s rainy-day fund had already been approved by the legislature for the ballot – later to be designated Proposition 2. But public sector unions – particularly those representing teachers – might have actively opposed it. They settled for limits on rainy-day set asides by local school districts contingent on voters enacting the state rainy-day plan.⁸⁸ School districts were upset about the deal, but had no time to reverse it.⁸⁹ And there were other last-minute additions to the budget deal such as changes in the way undocumented workers could obtain drivers’ licenses. Such arrangements led to complaints about lack of transparency, but Assembly Speaker Toni Atkins characterized the enacted budget as “building a foundation for the future.”⁹⁰

In the aftermath of the budget enactment, Brown made some token line-item vetoes. But since he had cut a deal with the majority legislative leaders, there were no major changes. There were complaints, of course, notably from the court system representatives who felt their allocation remained inadequate compared to what was needed to recover from the cuts imposed following the Great Recession. But the legislature turned to other matters, some of which were follow-ons to the budget.

⁸⁵The quote is from George Skelton, “Gov. Brown, lawmakers trade goodies to reach on-time budget,” *Los Angeles Times*, June 15, 2014. Available at <http://www.latimes.com/local/la-me-cap-budget-20140616-column.html>.

⁸⁶Assemblyman Jeff Gorell quoted in Chris Megerian, “Closed-door, last-minute state budget decisions raise concerns,” *Los Angeles Times*, June 14, 2014. Available at <http://www.latimes.com/local/la-me-pol-state-budget-pork-20140615-story.html>.

⁸⁷At this writing, there are proposals in the legislature to provide the money despite the failure of the trigger.

⁸⁸The local limit was contingent on the state rainy-day fund being passed by voters.

⁸⁹At this writing, it is unknown whether school authorities will officially oppose the rainy-day fund proposition.

⁹⁰Quoted in Chris Megerian, “Jerry Brown, top lawmakers announce budget deal,” *Los Angeles Times*, June 12, 2014. Available at <http://www.latimes.com/local/political/la-me-pc-california-budget-deal-jerry-brown-20140613-story.html>.

Incoming Senate President Kevin de León wanted to have construction of the high-speed rail start at its urban ends rather than in the “tumbleweeds” of the Central Valley.⁹¹ (He had to apologize for his tumbleweeds comment to residents of the Central Valley shortly thereafter.) It’s not clear, however, that his advice will be – or can be – followed.⁹² The water bond (described earlier) had to be renegotiated – and it was, becoming Proposition 1 on the November 2014 ballot.⁹³

Conclusion: Adult Supervision Isn’t Enough

“The government is becoming the family of last resort.”

Jerry Brown (attributed)⁹⁴

We noted that after all the drama in enacting the 2014-15 budget, net reserves (regular plus rainy-day) are slated in the official documents to fall by around \$900 million over the course of the year, in other words, a deficit. Now it could be that because the governor tends to push for conservative revenue estimates to rein in the legislature, reserves might rise rather than fall, producing a modest surplus instead. Some might argue that because the budget includes some early retirement of the Schwarzenegger-era Economic Recovery Bonds, we should not view the projected fall in reserves as a deficit.

The key point, however, that even if there is surplus rather than a deficit, at the end of the fiscal year, there won’t be much in the till to deal with an economic downturn, should one arise. Even projected out over several years, at best there is an accumulation of a modest reserve – maybe five percent of general fund spending. Past experience says a downturn would swallow any reserve of that magnitude very fast. So even with the governor perceived as the adult in the family room, California remains very vulnerable to some future crisis at some unknown date. Its revenues – especially the personal income tax – are highly volatile and reflect perturbations in the real economy and in financial markets.

There is no iron law that there has to be a recession over some period of time or even that the probability of a recession necessarily increases over time. But if you wanted to worry about external events that could negatively affect the economy, you can (always) look at the Middle East as a source of uncertainty in world markets. Or perhaps you might look at other international conflicts, say Russia and Ukraine.

⁹¹Quoted in George Skelton, “Next Senate leader Kevin de León wants Brown to rethink bullet train,” *Los Angeles Times*, June 22, 2014. Available at <http://www.latimes.com/local/la-me-cap-de-leon-20140621-column.html>.

⁹²State officials indicated that they might start work on a Burbank-to-Palmdale section at some point in the future, but there was nothing definite.

⁹³The legislature changed the numbering system for ballot propositions so that the water bond and the rainy-day fund would be Props 1 and 2.

⁹⁴Type this quote into Google and you will find innumerable sources that attribute it to Jerry Brown. But none cite an original source.

You could also note that as the U.S. economy goes, so goes the California economy. And in the U.S., we ended the Great Recession with a legacy of banks that are “too big to fail” – but also with uncertainty over whether a gridlocked Washington would be able to pull off another financial rescue should an emergency arise. Will there be another Kashkari with a handy TARP-type bailout? Will the Federal Reserve at some future date ride to the rescue as it did under its now-departed chair Ben Bernanke?

In short, dear children, while it’s comforting to have an adult supervisor in the room as governor, he can’t guarantee you a carefree future, certainly not with a combined reserve of 3-5% of general fund spending.

Table 1: Percent of Registered Voters That Approve of the State Legislature

		Approval
Dot-com boom cycle peak	2000	48%
Recall of Gov. Davis	2003	25
Housing boom cycle peak	2007	38
Budget Crisis IOUs	2009-2010	15-14
Calendar Year	2013	38
After state senate scandal June	2014	35

Source: California Field Poll,

<http://www.field.com/fieldpollonline/subscribers/Rls2474.pdf>

Table 2: General Fund Cash Flows and Reserves (\$billions)

\$billions					Adjusted*
Fiscal Year	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015
Starting Reserves**	-\$9.9	-\$8.2	-\$9.6	-\$2.4	+\$2.0
Receipts	95.5	87.8	103.4	104.0	107.5 [109.1]
Disbursements	93.7	89.2	96.3	99.6	111.5
Surplus/ Deficit	+1.7	-1.4	+7.2	+4.4	-4.0 [-2.4]
Ending Reserves**	-8.2	-9.6	-2.4	+2.0	-2.0 [-0.4]

*Based on cash data from 2014-15 budget. Starting reserves from controller's June 30, 2014 cash data. Receipts reflect subtraction of \$104 million transfer from reserves. Disbursements reflect subtraction of \$3,183 million to rainy-day reserves. Ending reserves thus include regular general fund reserve plus "rainy day" fund. Figures in brackets [] assume that \$1.6 billion in revenue is diverted in the source table from receipts and sent directly to the rainy-day fund. The source table is unclear on this point.

**Includes "rainy-day" fund.

Source: June cash statements of the California state controller (for data from 2010-11 to 2013-14). Raw data on receipts and disbursements from California Department of Finance at:

http://www.dof.ca.gov/reports_and_periodicals/documents/BS_SCH5D_2014.pdf

**Table 3: Actual and Forecast Cash Flows and Reserves: 2013-14
(\$billions)**

\$billions	Actual	Forecast		Forecast	
		Jan. 2014	Difference*	July 2013	Difference*
Starting Reserves	-\$2.4	-\$1.4	-\$1.0	-\$2.4	0.0
Receipts	104.0	101.5	+2.5	98.4	+5.6
Disbursements	99.6	100.0	-0.4	99.4	+0.2
Surplus/ Deficit	+4.4	+1.5	+2.9	-1.0	+5.4
Ending Reserves	+2.0	+0.1	+1.9	-3.4	+5.4

*Actual minus forecast.

Source: California state controller's June 2014 cash statement,
http://www.sco.ca.gov/Files-ARD/CASH/fy1314_july.pdf

Table 4: The Stages of the 2014-15 Budget in Accrual Terms (\$billions)

	LAO Current Services** Nov. 2013	Governor's Initial Proposal Jan. 2014	Governor's May Revise Proposal May 2014	Final Budget Including Line-Item Vetoes June 2014

Beginning				
Basic				
Reserve	+\$3.1	+\$4.2***	+\$3.9	+\$3.9
Revenue &				
Transfers	107.6	104.5	105.3	105.5
Spending	104.4	106.8	107.8	108.0
Surplus or				
Deficit	+3.3	-2.3	-2.4	-2.5
<i>Revenue</i>				
<i>Excluding</i>				
<i>Rainy-Day</i>				
<i>Fund Diversion</i>	104.4	105.2	107.0	107.1
<i>Surplus or</i>				
<i>Deficit</i>				
<i>Including</i>				
<i>Rainy-Day</i>				
<i>Fund</i>	+3.3	-0.7	-0.8	-0.9
Ending				
Basic				
Reserve	+6.2	+1.9	+1.5	+1.4
<i>Ending</i>				
<i>Rainy-</i>				
<i>Day</i>				
<i>Fund</i>	n.a.	+1.6	+1.6	+1.6
<i>Total Ending</i>				
<i>Reserves*</i>	+6.2	+3.5	+3.1	+3.0

Details need not sum to totals due to rounding.

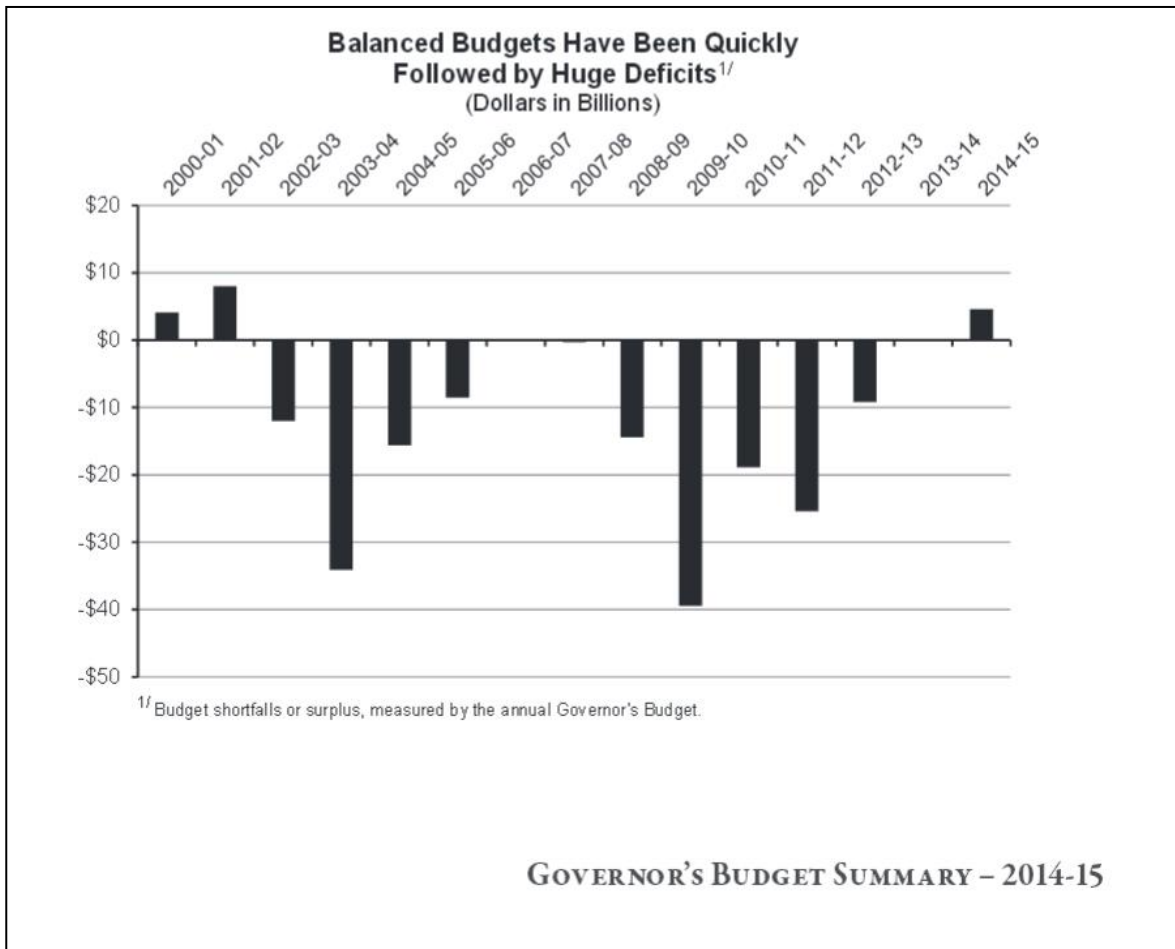
*Basic reserve plus rainy-day fund.

**Assumes all policies remain unchanged.

***The Legislative Analyst found an error in this estimate. We present the original (incorrect) number for consistency with the official proposal.

Source: California Department of Finance, January, May, and Final Budgets for 2014-15; California Legislative Analyst's Office, November 2013 fiscal outlook.

Figure 1:



Source: Reproduced from governor's January 2014 budget proposal. The same chart appears in the May Revise and the final budget summaries issued by the California Department of Finance.

Figure 2:

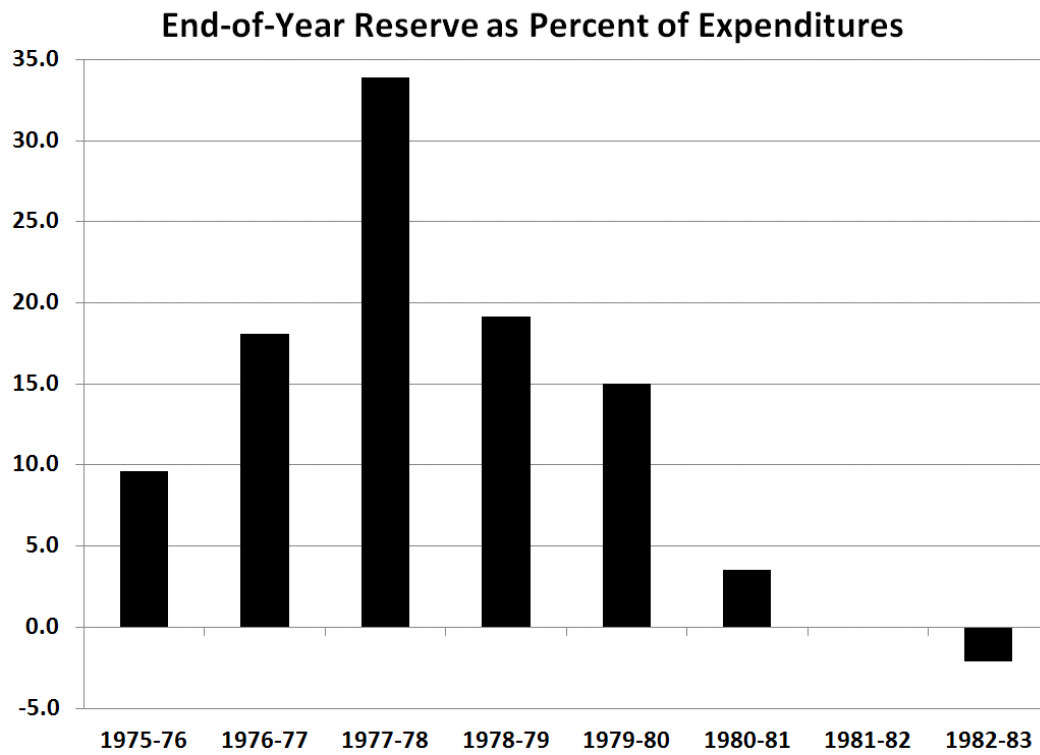
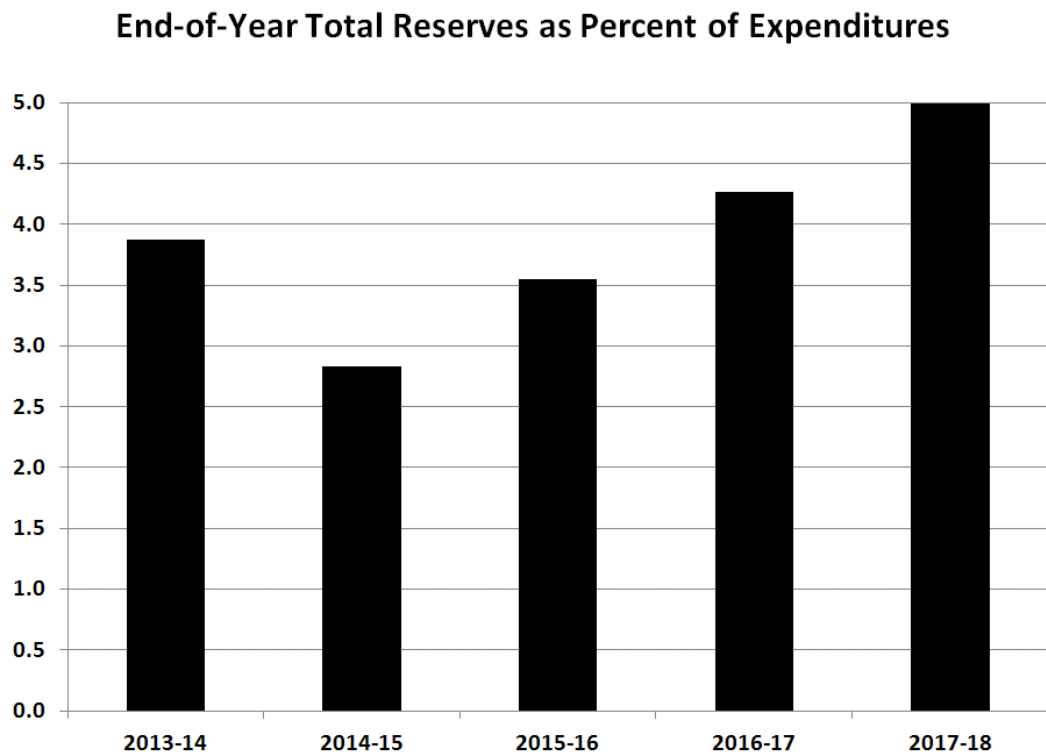


Figure 3:



CHAPTER 7

An Energy Disclosure Policy for the City of Los Angeles

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The authors are former Master of Public Policy students. This chapter is based on their Applied Policy Project for the UCLA Department of Public Policy, Luskin School of Public Affairs.

The original report is at <http://innovation.luskin.ucla.edu/content/building-greener-la-examining-energy-efficiency-policies-existing-buildings>

The City of Los Angeles is recognized as a leader in energy efficiency and environmental policy. In 2008, Los Angeles passed an ordinance requiring that all new buildings constructed would need to meet green building standards.¹ In 2010, California followed by passing the CalGreen Code – the first state green building code in the nation.² While these building codes require new buildings to incorporate energy efficiency technologies, there is no similar mandate for existing buildings. Considering that 84% of buildings in Los Angeles were built prior to 1978 when California legislature passed its first energy building codes, existing buildings represent a large opportunity for increased investment into energy efficiency.³

A major barrier for energy efficiency investment is the lack of information in the marketplace. Currently, there is no transparency regarding buildings' energy usage in Los Angeles. One solution is to mandate benchmarking and disclosure of annual energy use of large existing buildings in Los Angeles. Such a policy could be modeled after a series of energy disclosure laws that have passed in 10 other U.S. cities – including New York, Austin, Seattle, and San Francisco. This could result in significant energy savings city-wide. By creating an awareness and dialogue about use, the market demand for energy efficiency investments for better building materials and technologies could be increased.

Given the goal of improved efficiency, our analysis in this chapter aims to address the following two questions:

- What is the feasibility and impact of energy benchmarking and disclosure laws in the City of Los Angeles?
- What criteria should be used to determine if a building owner should be mandated to disclose energy use?

¹ Mitch Menzer and Elisa Paster. "Stay Current: Los Angeles Adopts Sustainable Building Ordinance," *Paul Hastings*, July 2008, <http://www.paulhastings.com/Resources/Upload/Publications/946.pdf>.

² Brown, Edmund G. Jr., "State and Local Government Green Building Ordinances in California." State of California Department of Justice. http://ag.ca.gov/globalwarming/pdf/green_building.pdf.

³ This number is based upon our analysis of the Los Angeles County Assessor Database.

Policy problem and the significance of energy efficiency

Energy benchmarking is a necessary precursor to address the underinvestment in energy efficiency technologies. A benchmarking and disclosure policy requires that owners of buildings of a certain size or threshold report annual energy use of their buildings. By benchmarking, building energy use can be compared from year to year as well as between buildings of the same size or industrial use and to find gaps in efficiency.

Most buildings use the EPA's Energy Star Portfolio Manager to benchmark their energy use. This tool uses individual building data and rates buildings on a scale of 1-100.⁴ This rating is called the Energy Star score and is an easy way to evaluate the efficiency of a building. Generally, buildings with a score over 75 are considered efficient. Disclosure makes this information available to the city and the public.

Thus, a policy of mandatory benchmarking and disclosure has the potential to solve the informational barriers that exist in the marketplace and contribute to what is known as the energy efficiency gap. This gap is defined as the difference between actual energy use and optimal use.⁵ From an economic perspective, addressing this gap requires stakeholders to consider the optimality of resource allocation in the context of saved energy. In other words, individuals must calculate the benefit and cost of saving energy in the short and long term.

Often, buildings owners do not invest in energy efficiency technologies despite future savings. While many market conditions and failures contribute to this phenomenon, consistent lack of information on energy use augments the energy efficiency gap. Furthermore, if a building owner rents his or her property, a split incentive may occur where the owner does not see the direct benefit of investing in energy efficiency. An energy benchmarking and disclosure mandate has the ability to ameliorate these market concerns by creating transparency around energy use.

⁴ EPA Web Seminar. "State of the ENERGY STAR Commercial and Industrial Program." Energy Star Training. US Environmental Protection Agency. March 5, 2014.

⁵ Adam Jaffe and Robert Stavins. "The energy-efficiency gap: What does it mean?" *Energy Policy* 22, no. 10 (1994): 804.

Background of other cities

Addressing energy efficiency has been a top priority for other cities nationwide, with 10 cities and two states implementing benchmarking mandates in the past six years.⁶ Each city's policy has been different, tailored for specificities such as building stock and political feasibility. For example, the State of California and Washington mandate benchmarking at the point of sale while all nine studied cities require annual benchmarking.⁷

Some cities require benchmarking for only commercial buildings while others include multi-family and mixed-use buildings. Almost all cities require benchmarking of only buildings over a certain size threshold. For example, New York City requires benchmarking and public disclosure of energy use for commercial and multifamily buildings over 50,000 square feet.⁸ In addition, many cities also passed related laws that mandate energy audits and building retro-commissioning.

One key component of benchmarking is the decision to make data public. Cities with mandatory benchmarking policies use EPA's Energy Star Portfolio Manager to transfer building data from the EPA to the city.⁹ The city would then be responsible for publishing the data on a public website. Currently, only New York City and Washington, D.C. have publicly published raw data. Other cities, like San Francisco, require public disclosure but have not yet released data.¹⁰ The trends towards open data – "big data" sets released to the public – allow for private

⁶ Northeast Energy Efficiency Partnerships (NEEP). "Building Energy Rating and Disclosure Policies Update and Lessons From the Field," *Northeast Energy Efficiency Partnerships (NEEP)*, February 2013, http://www.neep.org/Assets/uploads/files/public-policy/building-energy-rating/BER%20Supplement_FINAL%20DRAFT_2-25-13.pdf.

⁷ Institute for Market Transformation. "Jurisdiction Briefs" (unpublished collection, accessed February 2014). Institute for Market Transformation, Washington D.C.

⁸ PlanNYC. "New York City Local Law 84 Benchmarking Report August 2012." *The City of New York*. 2012. http://www.nyc.gov/html/gbee/downloads/pdf/nyc_ll84_benchmarking_report_2012.pdf.

⁹ Danny Orlando (Energy Star Program Manager, U.S. Environmental Protection Agency), interview by Amanda Morrall, January 23, 2014.

¹⁰ Institute for Market Transformation. "Jurisdiction Briefs" (unpublished collection, accessed February 2014). Institute for Market Transformation, Washington D.C.

individuals and firms to perform analysis and elucidate complex social and spatial relationships within urban cities.¹¹ We recommend that Los Angeles use an open data model.

Based upon conversations with our client, the Los Angeles Mayor's Office, we focused on the impacts and feasibility of a policy that mandates annual benchmarking and publicly discloses building data. We also analyzed which buildings should be included in this mandate.

Methodology

To assess the impact and effectiveness of energy benchmarking and disclosure, our team undertook an extensive literature review and conducted a series of interviews. Our interviews included municipalities that already enacted energy benchmarking and disclosure laws and two commercial real estate firms covered by these laws. We also interviewed utilities from two cities (San Francisco and Austin) and staff from the Environmental Protection Agency to understand better the Energy Star Portfolio Manager tool, which is currently used by all cities to administer benchmarking requirements. We also analyzed the building stock for the City of Los Angeles using the County Assessor's database from 2008 to assess the potential impact of this policy.

Feasibility and Impact

To evaluate the feasibility and impact of passing an energy disclosure and benchmarking law, we used five criteria: 1) Impacts on Energy Use, 2) Projected Compliance Rates, 3) Costs of Implementation, 4) Costs to Owners, and 5) Political Feasibility.

1) Impacts on Energy Use

Mandatory benchmarking is a relatively new policy. New York City was the first city to implement benchmarking and only has two years of post-benchmarking data.¹² Because pre-

¹¹ Duncan Smith. "The availability of open data and new trends in data visualization will transform how we understand our cities," *The London School of Economics and Political Science*, 2011, <http://blogs.lse.ac.uk/impactofsocialsciences/2013/11/15/luminocity-project-urban-cartography/>.

benchmarking energy data are not available, the ability to analyze the current impact of benchmarking statistically is limited. Thus, our estimated energy savings relies upon the EPA's assessment of voluntary benchmarking.

In 2012, the EPA released a report based on energy use intensity data from benchmarking on 35,000 buildings between years 2008 and 2011. During this time, there was an average energy reduction of 7%.¹³ However, this 7% savings resulted from buildings that voluntarily benchmarked, not those mandated to benchmark. To correct for self-selection bias, we estimated that actual savings would be between 3 - 5% when accounting for a mandatory policy.¹⁴ This savings rate is the estimated percentage reduction (relative to a constant baseline) in energy use after the policy has been fully implemented.

2) Projected Compliance Rates

High compliance rates signal that a policy is successfully implemented and that the public accepts the policy. On average, cities with benchmarking ordinances have high compliance rates. The largest barrier to compliance is lack of knowledge of the ordinance or inability to access whole-building data. In order to overcome the first barrier, most cities have created outreach strategies to inform building owners of the law and provide technical assistance for benchmarking. Compliance rates have a large impact on the total energy saved. If only a small percentage of buildings comply, the expected energy savings greatly decrease. As such, we calculated the following compliance rates for Los Angeles by averaging the compliance rates of our model cities. This results in an estimated 80% compliance rate for Los Angeles.

¹² PlanNYC. "New York City Local Law 84 Benchmarking Report August 2012." *The City of New York*. 2012. http://www.nyc.gov/html/gbee/downloads/pdf/nyc_ll84_benchmarking_report_2012.pdf.

¹³ United States Environmental Protection Agency (EPA). "Data Trends: Benchmarking and Energy Savings." *United States Environmental Protection Agency (EPA)*. October 2012. http://www.energystar.gov/buildings/sites/default/uploads/tools/DataTrends_Savings_20121002.pdf.

¹⁴ This range was determined through interviews with energy efficiency experts.

Cities	Benchmarking Compliance Rates
Austin	76%
Seattle	93%
New York City	75%
Washington, D.C.	83%
<i>Estimate for Los Angeles</i>	80%

3) Costs of Implementation

The primary cost to implement a benchmarking policy is personnel. Staff is needed to facilitate the drafting of the ordinance, to engage the building owner community, and to coordinate with the utility and city council to ensure political buy-in, as well to ensure that the project is technically feasible. Once the policy is passed, staff is needed to create a database of all buildings that are expected to comply, educate building owners, and enforce compliance. Comparing cities, we found that a minimum of two full-time employees (FTEs) is necessary to implement a benchmarking and disclosure ordinance.¹⁵ One person would focus on outreach and education, while the other would maintain the energy use database and track compliance.

However, since most cities do not own their own utilities, utility costs are not usually included. In Los Angeles, the Department of Water and Power (LADWP) is owned and managed by the city. In response to AB 1103, California’s benchmarking law, the Heschong Mahone Group surveyed the necessary upgrades and cost required by all California privately owned utilities to automate benchmarking. For a modern Customer Information System, database upgrades to provide automated benchmarking would cost up to \$160,000.¹⁶

¹⁵ Institute for Market Transformation. “Jurisdiction Briefs” (unpublished collection, accessed February 2014). Institute for Market Transformation, Washington, D.C.

¹⁶ Heschong Mahone Group. “California’s Automated Benchmarking Cost System.” White Paper. July 2009. <http://www.h-m-g.com/downloads/energybenchmarking/For%20Utilities/CA%20ABS%20Cost%20Summary%207-09.pdf>.

Based on the above assumptions, the total estimated costs for Los Angeles are as follows:

LA Administrative Cost estimates			
Policy	Item	Cost	Total
Benchmarking Costs	Staffing (2 FTE)	\$ 175,000 ¹⁷	\$ 335,000
	Database costs	\$ 160,000	

4) Costs to Owner

One barrier to energy efficiency improvements is the upfront cost to the owner. Although benchmarking does not require large outlays for capital improvements, such outlays may be necessary to achieve actual energy savings. In comparison, the cost to benchmark a building is very low. Owners can either chose to internally benchmark their data or hire an outside contractor to assist with the process. In New York City, the average cost of a contractor is \$500.¹⁸

Most utilities (with the exception of Con-Ed in New York), will provide energy use data for free.¹⁹ In Los Angeles, we assume that LADWP will be able to provide aggregated building data to owners for free. Additionally, Energy Star Portfolio Manager is a free tool. However, if a building owner needs permission for energy data from tenants, this requirement can be burdensome and add additional costs. Overall, benchmarking costs are minimal.

¹⁷ Cost estimate based on Los Angeles City salary for a Management Analyst. www.controlpanel.lacity.org.

¹⁸ Interview with New York City real estate expert, February 19, 2014

¹⁹ PG&E indicated during our interview that these data are free and So Cal Gas provides free data as well. We assume that LADWP will also provide these data for free. Laura Mogilner (Pacific Gas & Electric Company), interview by Amanda Morrall, February 14, 2014.

Cost Estimations for Building Owners					
	Inputs	Cost	Units	Subtotal	Total per Building
Benchmarking & Disclosure	EPA Portfolio Manager tool	Free			\$ 300.00
	Permission from Tenants	\$15 transaction cost per tenant	15	\$ 225.00	
	Data upload from Utility	Free			
	Time to process data	\$15 per hour	5	\$ 75.00	
	OR Hire a Contractor		N/A	500	\$ 500.00

5) Political Feasibility

Overall, benchmarking and disclosure laws are politically a low-hanging fruit for mandating action for energy efficiency. Both costs to the city and costs to private building owners are relatively low, especially in comparison to the potential energy savings available. Opponents to the law are likely to argue, however, that benchmarking itself does not create energy savings since it only increases access to information. While it is difficult to ascribe a causal relationship between access to energy information and the decision to invest in energy efficiency, this information is the necessary precursor to action. Thus, the opponents' argument has proven unsuccessful in preventing legislation from passing in other cities.

Data privacy, on the other hand, is a major area of contention. The California Public Utility Commission's (CPUC) rules 8380 and 8381 require that personally identifiable information will not be shared or sold to third parties *unless* the customer consents.²⁰ However, the utility can release energy use data if personally identifiable information is stripped and kept private. To comply, LADWP and other private utilities rely on the 15/15 rule to aggregate data. The 15/15 rule specifies that aggregated energy data must include usage by fifteen customers and that no

²⁰ State of California. "PUBLIC UTILITIES CODE – PUC DIVISION 4.1. CHAPTER 5," *State of California*, 2011, http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=PUC&division=4.1.&title=&part=&chapter=5.&article=.

single customer comprises 15% of the composite energy use.²¹ In the context of benchmarking, the 15/15 rule serves as an impasse for building owners who want to benchmark their buildings' energy use but have no formal venue to access data when the tenant is the account holder.

We recommend that the mayor change LADWP's current privacy policy to allow the release of aggregated whole building energy data directly to building owners. To change this policy, Los Angeles must address privacy concerns and make a case for providing building owners aggregated building data. Since the proposed policy only applies to large buildings, individual tenant data would be protected. To date there has been no evidence that whole building aggregated data has infringed upon individual privacy in cities that have passed public energy disclosure policies. Since the potential risks for aggregated data are low, the mayor should be able to address concerns and change policy.

Analysis of Los Angeles' Building Stock

None of our model cities universally mandated energy disclosure for all building types and all building sizes. In general, cities tried to maximize the total floor area and minimize the total number of buildings covered by the policy. Most cities underwent a dual process of analyzing their building stock and meeting with local stakeholders to determine who must comply.

In order to recommend which buildings and at what threshold the policy should cover, we analyzed the size and distribution of multifamily, commercial, and industrial buildings in Los Angeles. Single-family residences and small buildings are exempt from these policies. An ideal analysis would combine building data with current energy usage data to see where the marginal energy savings would be the greatest. Unfortunately, we were unable to gain access to current energy data. To proxy the marginal energy savings, we looked at the marginal gains

²¹ State and Local Energy Efficiency Action Network. "A Regulator's Privacy Guide to Third-Party Data Access for Energy Efficiency." Prepared by M. Dworkin, et al. 2012.
http://www1.eere.energy.gov/seeaction/pdfs/cib_regulator_privacy_guide.pdf.

in floor area affected by our policy options compared to the total number of buildings using the Los Angeles County Assessors' 2008 Database.

When analyzing the distribution of buildings by the total floor area, we found that Los Angeles has many small buildings. In fact, 90% of buildings were below 10,000 square feet. When looking at the distribution of buildings, setting the policy below 10,000 square feet has small marginal gains in total square feet and large gains in the number of buildings impacted. Based on this we recommend a 10,000 square feet policy across building types.

Policy Recommendations

We recommend that the city passes a policy that requires that commercial, industrial, and multifamily buildings over square feet annually benchmark and publicly disclose energy use. Based on our analysis, we determined that this policy is both feasible and would have a net beneficial impact upon the city. In order to ensure a successful implementation of this policy, we recommend the city pursue the following actions:

Recommendation: Pass an audit policy

We recommend that the City of Los Angeles pass a policy that requires building owners to audit their building every ten years. Audits augment energy use data and allow a building owner to 1) see where building inefficiencies occur and 2) understand which investments would create the largest savings. Most cities with a benchmarking policy have a complimentary audit policy.

Recommendation: Phased Implementation

Every city with a benchmarking policy has phased-in its policy over a period of two to four years.²² Implementing the policy over several years allows the city to 1) engage stakeholders and receive input, 2) lead by example and apply the policy first to municipal buildings, 3) pass

²² Institute for Market Transformation. "Jurisdiction Briefs" (unpublished collection, accessed February 2014). Institute for Market Transformation, Washington, D.C.

the policy through the city council, 4) provide education for building owners, 5) identify potential problems and 6) enforce compliance. We recommend a four-year phased implementation plan.

- Year Zero: Engage building owners and stakeholders to secure support for the policy.
- Year One: Benchmark municipal buildings to lead by example and pass the policy through City Council.
- Year Two: Provide educational outreach to building owners which includes facilitating information sessions, training owners on Energy Star Portfolio, creating a 24-hour call center, and partnering with local universities to analyze data.
- Year Three: Enforce the policy with penalties for non-compliance.

Recommendation: Data Privacy and Aggregation

Data are a critical component of the benchmarking and disclosure policy. Ensuring that building owners have access to their buildings' data in order to benchmark is crucial to the success of this policy. At the same time, the availability of the data and the ability for people to understand the energy use data is critical for driving change in the energy efficiency market. Below are three recommendations that the Mayor's Office should pursue to maximize the utility of the mandated data.

- 1) Work with LADWP, CPUC, and other stakeholders to ensure that building owners can access their whole building's aggregated data, even if the building owner does not have access to the account numbers for all units within the building. LADWP should provide automatic upload of these data to the EPA Energy Star Portfolio Manager.
- 2) Ensure that the data are easy to access for all constituents. If the city can help tenants, prospective buyers, and brokers successfully access and understand the data, there will likely be an increased demand for energy efficient buildings.
- 3) Coordinate the creation an energy use database with the federal government, State of California, and Los Angeles County.

Conclusion

We recommend that the Los Angeles Mayor's Office of Sustainability pursue a policy combining disclosure and audits. The mayor's goal of improving our local environment is attainable by implementing the above recommendations. Energy benchmarking and disclosure give building owners access to data that allow them to see energy inefficiencies and waste. This policy is the first step in improving the performance of the building stock of Los Angeles by serving as an impetus to overcome status quo bias and increase energy efficiency investments.

Los Angeles is a leader in environmental policy and sustainability. The city is perfectly poised to adopt new energy efficiency policies that will drive investment in the city's buildings and infrastructure and will have positive externalities for years to come.

CHAPTER 8

Deepening Educational Segregation in a Policy Vacuum

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“Segregation, isn’t that history? We are so diverse!” Policy makers and the public tend to think that times have changed, that racial problems have receded, and that race-conscious civil rights policies are obsolete. Though there have been obvious and substantial changes on some dimensions of racial progress, including politics, there are severe problems in others, including education, wealth inequality, unemployment, poverty, housing, and incarceration.

What has most changed is the attitude of the U.S. Supreme Court and one of our national policies toward desegregation that results from residential location. In the 1960s, a unanimous U.S. Supreme Court and very large bipartisan Congressional majorities supported major civil rights reforms including the 1964 Civil Rights Act and the Voting Rights Act. At the end of the decade, however, a deepening split on the Court emerged after President Nixon’s appointments of new justices.

In addition, the “southern strategy” of appealing to white Southerners by attacking court-ordered desegregation and other policies, brought white civil rights opponents into the GOP.¹ In California the momentum for racial and ethnic inequality was broken by passage of six major referenda limiting civil rights law.² Under Presidents Reagan, George Bush and George W. Bush, although civil rights laws and executive orders were not repealed, there were new, more conservative appointees to administrative agencies and courts.

Return of Segregation

In important ways, segregation is worse than a half century ago. Across the California’s schools, Latinos are more segregated than in any other state, though they were in highly integrated schools in the early 1970s. Blacks are segregated in very poor, predominantly Latino, schools. The segregation is not just by ethnicity but also by concentrated poverty. Often there is also

¹The Nixon civil rights record is mixed. For example, the first use of “affirmative action” in hiring was developed by Nixon’s Secretary of Labor George Shultz, the so-called “Philadelphia Plan” for the construction industry in that city. Other such city plans followed.

²These propositions forbade fair housing laws (later reversed through litigation), limited school desegregation policies (two propositions), prohibited affirmative action in public college admissions and state and local government contracting, restricted bilingual education, and limited access of undocumented immigrants to state public services (largely reversed by litigation).

linguistic isolation for Latinos, what we call triple segregation. Most organized efforts to do anything about the issue have long been terminated.

Although many educators have said that they could end educational gaps without changing segregation, those efforts have failed here and elsewhere as they failed during the six decades of the U.S. Supreme Court's *Plessy* "separate but equal" policy (1896-1954). The segregated schools are unequal in terms of achievement, teacher qualifications and experience, curricula, and levels of competition and connections with colleges. Very different educational opportunities and sharply differing patterns of high school graduation and college success are strongly related to segregation.

These patterns are fundamental barriers to social and economic mobility for most Latino and black young people. This chapter explores the roots of the segregation, the political and legal steps to resegregation, and the way in which these inequalities are excluding California's future mobility for its nonwhite majority. In the later parts of this report, we discuss the paths that are still open for addressing the problems.

California Background

The history of California's racial policy is a very mixed bag. From its very beginnings, California had policies that were openly racist concerning blacks, Asians, and American Indians. The segregation laws permitting forced separation of Asians and American Indians were on the books until the mid-20th century. Mexican-American children were also often segregated within school districts and access to public accommodations.

California was the center of the Asian exclusion movement of the late 19th century that was only changed in national policy with the 1965 immigration act passed during the Johnson administration. Much of California land had been legally owned by Mexicans before the U.S. conquest and the treaty ending the Mexican-American War required the U.S. to honor the ownership and citizenship rights of the residents. However, very serious systems of discrimination soon developed.

Up until the mid-twentieth century, California was an overwhelmingly white state with relatively few immigrants and a small fraction of Latinos. When things began to change rapidly in the state and the nation in the 1960s, the state's reaction was deeply ambivalent. The passage of six propositions limiting civil rights under state law from 1964 to 1996 reflected public resistance. Propositions drastically limiting taxation, especially the local property tax on which school districts were dependent, reduced the quality of education just as nonwhite enrollments soared.

The California story was mixed. In the Civil Rights era, California adopted some policies aimed at expanding opportunity and there were supportive decisions from the California Supreme Court in the 1960s and early 1970s. But the enactment of two propositions – discussed below – limiting school desegregation ended state initiatives on that issue. Three liberal justices on the state Supreme Court were not re-elected in the 1986 election, ostensibly over the death penalty issue, and replaced by conservatives. Limits on civil rights policy in several areas were written into the state constitution.

The post- 1998 progressive shift in the state's dominant political coalition is a relatively recent development and hasn't yet produced restoration of civil rights laws. A move in 2014 in the state legislature to put before voters a proposition to repeal on the ban in affirmative action in public college admissions failed. The state's education policy has been very much in the mold of the Bush-Obama high stakes accountability and charter school priorities. But that emphasis has begun to change with the state's new funding initiatives which recognize the problems of schools with concentrated poverty and isolated English Language Learner (ELL) students.

Nonetheless, state policy still ignores the ways these issues are rooted in double and triple segregation. This chapter, using official data collected by California's school districts, documents intense segregation by race, ethnicity, poverty and language and show it is related to strikingly unequal school opportunities by the state's own measuring stick. That pattern, if left unattended, will deepen social and economic polarization in the state and mean that the children in an extremely multiracial state will grow up with very unequal futures, in isolation from other groups.

California's Legal History of School Desegregation

In 1946, almost a decade before the U.S. Supreme Court ruled that school segregation was inherently unequal, California's courts were among the first in the nation to hear cases against school segregation and to rule that segregating Mexican American students was unconstitutional.³ While an important step, the *Mendez* decision was limited in that it addressed segregation only for those who resided within the attendance boundaries of predominantly white schools. It did not address segregation resulting from residential segregation or gerrymandering of boundary lines, nor did it require ongoing oversight of the schools. The 1954 *Brown* decision, which is often cited as the beginning of school desegregation efforts across the nation, had a limited effect in California because the decision primarily targeted the 17 Southern states that had *de jure* segregation.

Through the 1960s, California's state courts and legislature acted in ways that facilitated desegregation efforts. In 1962, the California School Boards Association urged districts to eliminate segregation. In 1963, the California Supreme Court issued its first decision in response to *Brown*, *Jackson v. Pasadena*, which found Pasadena's schools guilty of intentional segregation and ordered a remedy to address the segregation.⁴ The court further ruled that although Pasadena was guilty of intentional segregation, the state constitution required action even when there was no proof of intent.

The state court's standard of proof was lower than that of the federal courts. Federal courts required proof of systematic official action that had the effect of segregating students of color. Therefore, aside from federal cases in San Francisco, San Jose, and Pasadena, most of California's major legal battles over segregation were fought in the state rather than federal courts.⁵

³*Brown v. Board of Education of Topeka*, 347 U.S. 483 (1954). *Westminster School Dist. of Orange County v. Mendez*, 161 F.2d 774 (9th Cir. 1947).

⁴*Jackson v. Pasadena City School Dist.*, 59 Cal. 2d 876 (1963).

⁵*Johnson v. San Francisco Unified School District*, 339 F. Supp. 1315 (N.D. Cal. 1971); *San Francisco NAACP v. San Francisco Unified School District*, 576 F. Supp. 34 (N.D. Cal. 1983); *Diaz v. San Jose Unified School District*, 733 F. 2d 660 (9th Cir. 1984); *Pasadena City Bd. of Educ. v. Spangler*, 427 U.S. 424 (1976).

In 1971, the California legislature enacted the Bagley Act, which required school officials to take action to desegregate their districts. However, the law was strongly opposed and only one year later, in 1972, with two-thirds support, the state's voters approved Proposition 21, also known as The Wakefield Anti-Busing Initiative. Proposition 21 repealed the Bagley Act and explicitly forbade the race-conscious assignment of students for purposes of desegregation. The state Supreme Court later overruled this proposition as eliminating basic constitutional rights.⁶

It was not until the 1973 *Keyes v. Denver* decision that the U.S. Supreme Court ruled on the rights of urban students of color in states outside of the South and recognized the desegregation rights of Latino students.⁷ However, *Keyes* was not significantly implemented because the Nixon administration opposed urban desegregation. In California, then-Governor Ronald Reagan was also opposed.⁸

Intensifying housing segregation, alongside boundary and student assignment policies, prompted civil rights lawyers in Pasadena to request an update of the district's desegregation plan. However, in 1976, in *Pasadena City Board of Education v. Spangler*, the U.S. Supreme Court ruled that there was no ongoing responsibility for courts to adjust desegregation plans as populations changed. Thus, desegregation plans have become outdated as demographics have shifted. This pattern has occurred across the state and nation over the last several decades.

Beginning in 1966, the state required districts to collect data about the racial composition of schools. Based on these data, which showed racial segregation of black students, a case was filed against the Los Angeles school district and the district was required to begin desegregation.⁹ However, the case was appealed, no desegregation occurred, the judge who had ordered desegregation was defeated in reelection, and no Los Angeles judges would take

⁶*Crawford v. Los Angeles Board of Educ.*, 458 U.S. 527 (1982).

⁷*Keyes v. Denver School District No. 1*, 413 U.S. 189 (1973).

⁸Orfield, G. (1996). Turning back to segregation. In G. Orfield & S. E. Eaton (Eds.), *Dismantling desegregation: The quiet reversal of Brown v. Board of Education* (pp. 1-22). New York: The New Press.

⁹Caughey, J.W. (1967). *Segregation blights our schools*. Los Angeles, Ca.: Quail Books.

the case. In 1976, the California Supreme Court ordered Los Angeles to desegregate, but the district's limited efforts at desegregation were short-lived.¹⁰

As a direct result of the Los Angeles desegregation order and the recommendations of court-appointed experts to include the suburbs in the remedy, Proposition 1 made its way to the state ballot in 1979. The proposition, approved by two-thirds of voters, was designed to limit desegregation rights in the state by ending mandatory student assignment and busing unless there was a finding of intentional segregation. The passage of Proposition 1 – after a 1982 decision by the U.S. Supreme Court upholding its constitutionality – marked the end of state desegregation efforts and Los Angeles became the first major city in the nation to abandon its court-ordered desegregation plan.

By the late 1990s and early 2000s, major California court decisions on state law from the 1970s and 1980s that had ordered desegregation were terminated, ending federal desegregation orders in San Francisco and San Jose.¹¹ There is currently no state policy on school desegregation and the California state constitution now includes anti-desegregation provisions. However, indirect pursuit of integration is still permissible. Berkeley, which along with Riverside was one of the state's first communities to pursue voluntary desegregation, continues to implement a remedy that successfully achieves diverse schools and has been affirmed by California courts.¹²

Current Data on Segregation in California Schools

California's school enrollment has changed radically since 1993, continuing the dramatic change that began in the 1970s. In the last two decades California's student enrollment grew by about a million students, from 5.2 million to 6.2 million. That growth ended by 2002, after which there has been a slight decline.

¹⁰*Crawford v. Los Angeles Board of Educ.* 458 U.S. 527 (1982).

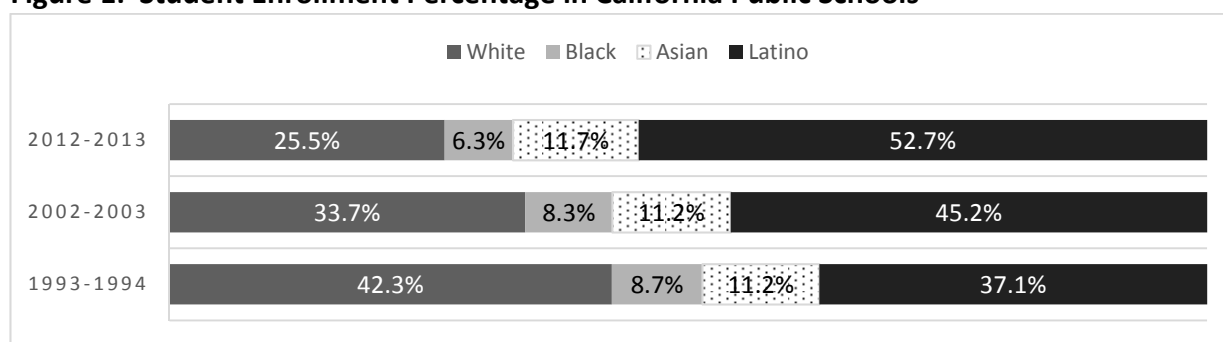
¹¹*Ho v. San Francisco Unified School District*, 147 F. 3d 854, (9th Cir. 1998). An unpublished ruling granted unitary status to San Jose Unified School District in 2002.

¹²Frankenberg, E. (2013). The promise of choice: Berkeley's innovative integration plan. In G. Orfield & E. Frankenberg (Eds.), *Educational delusions? Why choice can deepen inequality and how to make schools fair* (pp. 69-88). Berkeley, CA: University of California Press.

Racial Transition of California Schools

The most significant change in the state's student population is what amounts to a massive replacement of white students by Latino students. In 1993, the school population was 42 percent white and 37 percent Latino; by 2012, whites were only 25.5 percent, whereas the share of Latinos had risen to 52.7 percent. Although the black population had grown overall, its share had slipped from 8.7 percent to 6.3 percent. Asians had grown enough to maintain a constant one-ninth share of the rising total. (See Figure 1.)

Figure 1: Student Enrollment Percentage in California Public Schools



Note: American Indians are less than 1% of total enrollment. Figures add to less than 100 because of the omission of American Indians and unidentified backgrounds.

Source: California Department of Education, Enrollment by School Data

Given the vast transformation of the state's school enrollment and the rapid decline in the percentage of whites, the significant contact between students of color and white students would have declined even if the students were distributed evenly across the state and nothing else had changed. It is critical to keep this point in mind when considering the statistics presented in this report, which address students' actual experience in their schools.

The statistics are not about the causes of segregation, which is usually a result of changing housing patterns, birth rates, immigration, and other demographic factors as well as the termination of desegregation plans and the creation of many charter schools without any diversity policies. However, the most important aspect of the educational

and social impact of segregation and integration is the level of separation or contact between groups of students and the conditions under which diversity is managed. These statistics explore the changes in the California school population along those dimensions. The most dramatic change occurred in the last decade, when white and black numbers fell substantially. Statistics for the most recent decade reveal another fact: that the long and rapid growth of young people entering California's schools and labor market ended in this decade. The only major increase was among Latinos, who have by far the least success in attaining a higher education, a trend that will threaten the state's future if it is not changed.

Until the 1990s, California had long had abundant newcomers to fill its jobs and fuel growth. Under those circumstances the educational success of any one group was not critical. However, when that level of growth stopped and the group with the most severe educational problems replaced the groups that have greater educational success, the issue of racial segregation in schooling deserves and demands urgent attention.

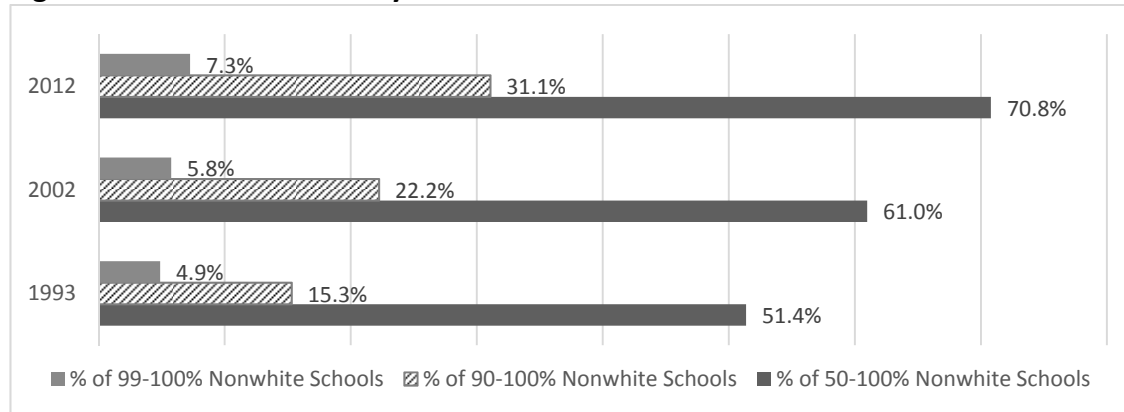
Racial Concentration of California Schools, 1993-2013

In 1993, more than two decades ago, about half of California's schools were still majority white schools, and only one-seventh were intensely segregated (zero to 10 percent whites). Fewer than 5 percent were "apartheid" schools (99 percent to 100 percent students of color). By 2012, 71 percent of the state's schools had a majority of students of color and fewer than 30 percent were majority white.

The proportion of intensely segregated schools had doubled in just two decades, with one in fourteen schools being an apartheid school. (See Figure 2.) There is a systematic relationship between segregated schools and lower educational achievement, as shown

in the summary of a half-century of research.¹³ Thus, the trend toward intensely segregated schools is a serious challenge to the state.

Figure 2: Schools Classified by Percent of Nonwhite Students



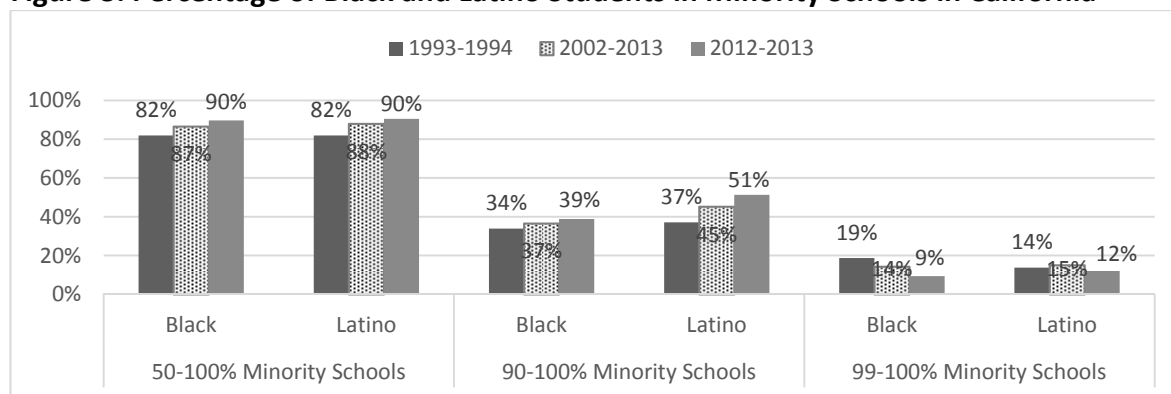
Source: California Department of Education, Enrollment by School Data

Black students in California were far more segregated than Latinos during the civil rights era, but Latino segregation has intensified rapidly and now is very high as well. In the two decades studied here, the share of blacks attending schools with a majority of students of color reached 90 percent. That share in intensely segregated schools rose from 34 to 39 percent.

The one encouraging sign is a decline in black students attending “apartheid” schools (zero to 1 percent whites), from 19 percent to 9 percent, which is a significant drop. This decline probably relates to the large outmigration of blacks from the inner city to some sectors of suburbia, and the demolition of old housing projects. Those projects have been replaced with voucher programs, which allow eligible tenants to rent affordable private housing. Despite these changes, the 2012 data demonstrate that blacks remain highly segregated. (See Figure 3.)

¹³See *Brown at 60: Great Progress, a Long Retreat and an Uncertain Future* in pages 37-40. This report can be downloaded at <http://civilrightsproject.ucla.edu/research/k-12-education/integration-and-diversity/brown-at-60-great-progress-a-long-retreat-and-an-uncertain-future/Brown-at-60-051814.pdf>

Figure 3: Percentage of Black and Latino Students in Minority Schools in California



Note: Minority school represents African American, Latino, American Indian, and Asian students.

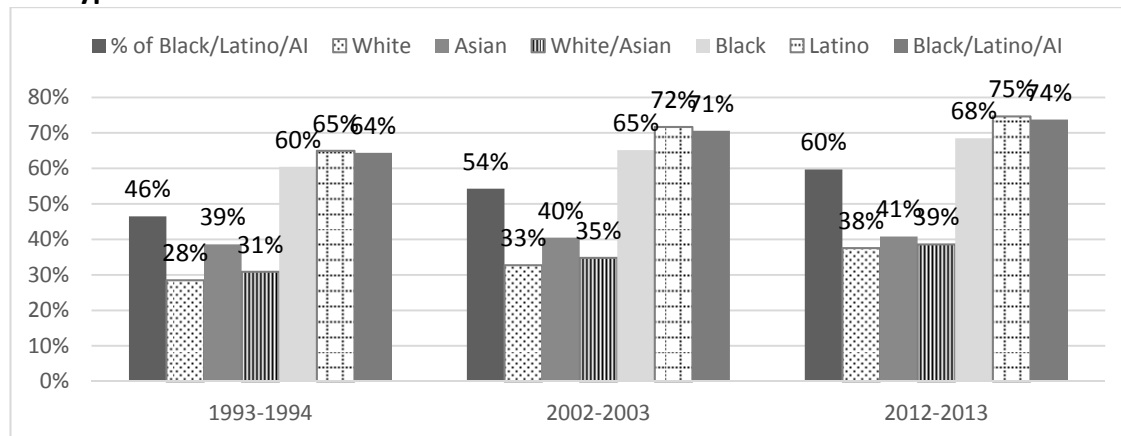
Source: California Department of Education, Enrollment by School Data

During these two decades, the share of Latinos and blacks enrolled in majority nonwhite schools has reached nine-tenths. With these higher levels of segregation, however, Latinos experience significantly worse isolation: 39 percent of blacks and 51 percent of Latinos attend intensely segregated schools (90-100% nonwhite), and 9 percent of blacks and 12 percent of Latinos are enrolled in apartheid schools (0-1% white). Due to these numbers on Latinos, California now has the distinction of leading the country in segregation on some of our measures (see Figure 3). Texas, for example, was historically much more segregated than California, but California has moved backward faster.

In 1993, the typical student from three disadvantaged groups attended a school that was 36 percent white and Asian; that number has declined to 24 percent. “Disadvantaged groups” in this chapter refer to African American, Latino, and American Indian students. (See Figure 5.) The typical Asian student has experienced virtually unchanged exposure to under-represented minority (URM) students.¹⁴ But such exposure for whites has increased significantly to two-fifths, about the level for Asians. (See Figure 4.)

¹⁴The conventional method of calculating segregation measures and trends is in terms of the isolation of nonwhite (or minority) groups from whites, and we will provide those statistics here. This calculation was a very central measure in the historic context of a black-white society with a substantial white majority but it is not adequate for contemporary multiracial California. However, the better way to think about integration in California in the long run may be to calculate the separation of under-represented minority(URM) students from disadvantaged groups from the combined group of white and Asian students, the two most affluent and educationally successful groups, on average. We provide those data as well.

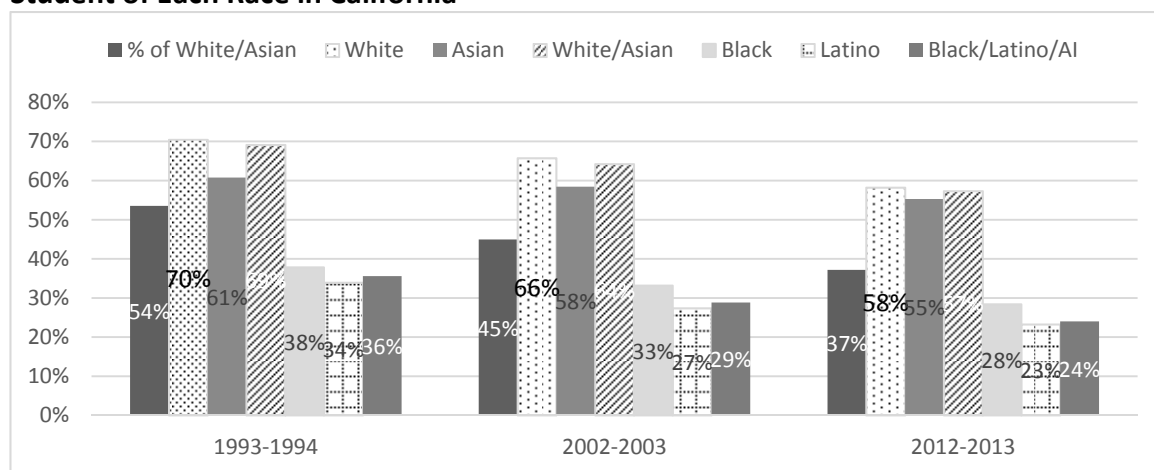
Figure 4: Percentage of Black, Latino, and American Indian Students in School Attended by the Typical Student of Each Race in California



Source: California Department of Education, Enrollment by School Data

The typical black or Latino student was exposed to over 60 percent URM students in 1993, and that number has now reached about three-fourths, indicating that the URM population clearly dominates their schools. California's school population includes about 60 percent combined black, Latino, and American Indian students, but the typical student from those groups attends a school with an average of 74 percent students from those groups, compared to 38 percent for whites and 41 percent for Asians (see Figure 4). The typical white or Asian student attends a school that has almost 57 percent white and Asian students. (See Figure 5.)

Figure 5: Percentage of White and Asian Students in School Attended by the Typical Student of Each Race in California

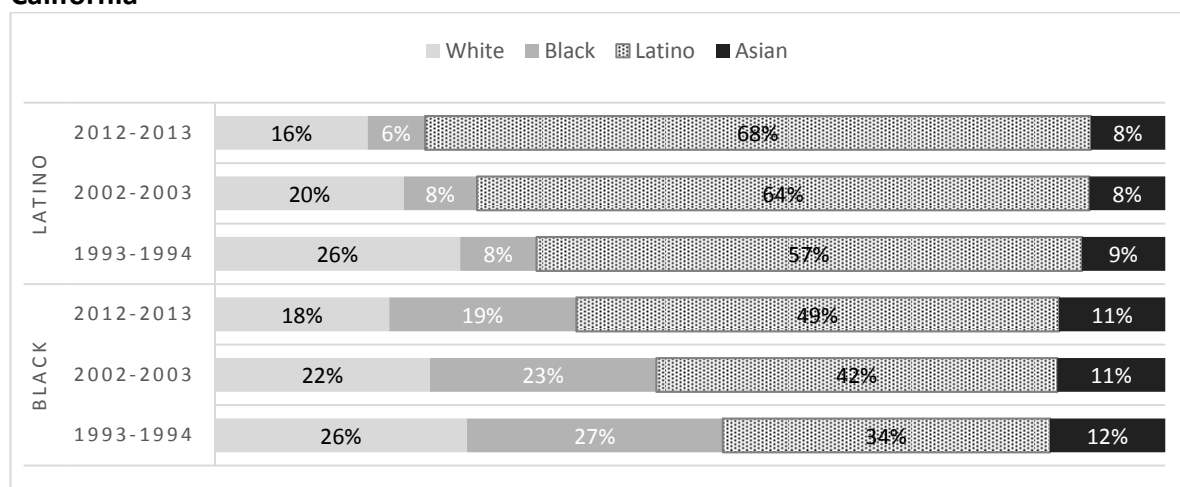


Source: California Department of Education, Enrollment by School Data

With respect to black students, due to the changing demography of California and the lack of integration today, the learning environment has not improved for the past decades. In 1993, the typical black student in the state attended a school with 27 percent blacks; that figure declined to 19 percent by 2012. However, they still attend schools in which another disadvantaged minority is the dominant population. These students typically attend schools with 49 percent Latino students, far more than twice the black share, and only one-sixth white students (see Figure 6). Therefore, the schools are overwhelmingly attended by disadvantaged students, and blacks continue to be isolated from whites and the middle class.

The pattern for the typical Latino student is very different. Latinos now attend schools that are on average more than two-thirds Latino, making them the most isolated group in California schools. With an average of one-sixth white students and small fractions of blacks and Asians, these schools are severely isolated. (See Figure 6.)

Figure 6: Racial Composition of School Attended by Typical Black and Latino Student in California



Source: California Department of Education, Enrollment by School Data

Double Segregation: Racial and Poverty Segregation, Differences in Neighborhood Schools

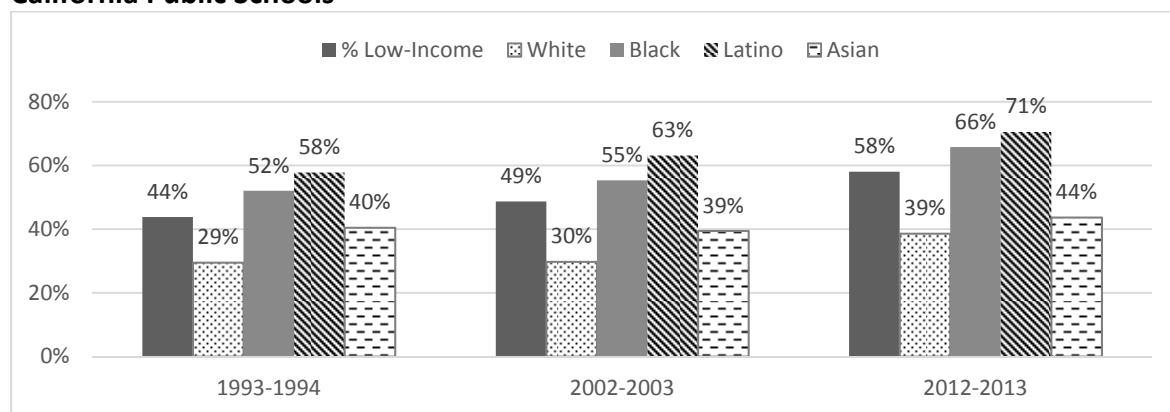
There is a clear pattern of intense double segregation by race and poverty for black and Latino children in California's metro areas, where the average white or Asian student attends a school where about 40 percent of their schoolmates are poor. At the same time, the typical black or

Latino student attends a school where 70 percent of students are poor. In other words, the default in a neighborhood school policy for a white or Asian family is a middle-class school, while the default for a Latino or black family is a school of concentrated poverty.

Contact with poor classmates is lowest for white Californians, about 37 percent, and highest for Latinos, about 71 percent. Poverty levels are linked to many forces inside and outside of schools that produce very different kinds of educational opportunity and attainment. Thus, this difference, which we call double segregation, matters tremendously.

The poverty California's children experience has increased markedly in the last generation, as has the level of segregation by poverty, particularly for black and Latino students. In 1993, black and Latino students attended schools with 52 percent and 58 percent poor children, respectively, as measured by subsidized lunch eligibility. By 2012, blacks on average attended schools whose populations were two-thirds poor children, and Latinos attended schools that were more than 70 percent poor. Whites and Asians, on average, attended schools with a clear middle-class majority, although also a rising poverty level.

Figure 7: Racial Group Exposure Rates to Low-Income Students for Typical Racial Student in California Public Schools



Source: California Department of Education, Enrollment by School Data

Triple Segregation by Race, Poverty, and Language: Why it Matters?

As the Latino population grew substantially for the past 20 years, so did the number of English language learners (ELLs). In the last two decades the ELL enrollment grew by

nearly 200,000, and over one in five students in California schools today are ELLs. Much of the ELL population growth occurred between 1993 and 2003, which made ELLs a fourth of total enrollment in 2002. Many students not classified as ELLs are from non-English speaking homes, which is also related to educational inequalities.

Table 1: English Language Learner (ELL) Enrollment

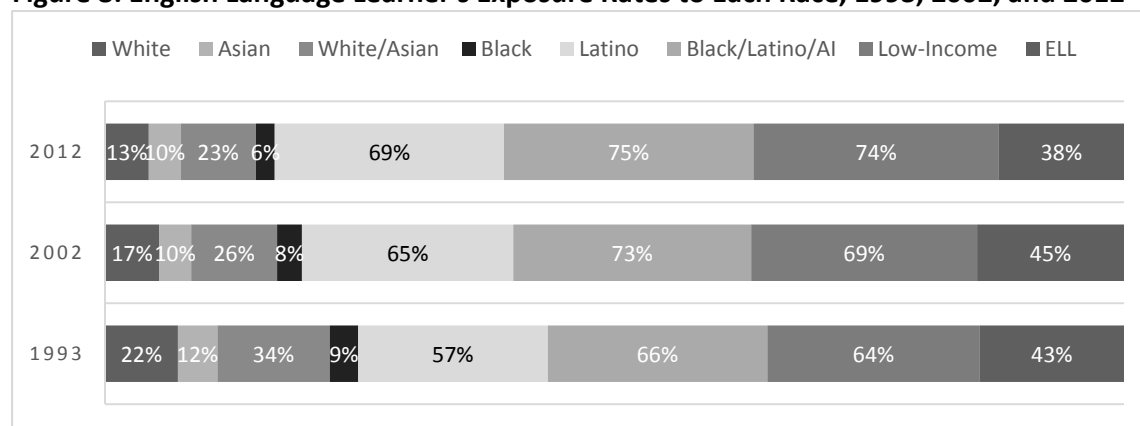
	Total ELL Enrollment	Share of ELLs of Total Enrollment	Total Latino ELLs	Share of Latino ELLs
1993	1,148,200	21.8%	887,757	77.3%
2002	1,590,251	25.5%	1,348,934	84.8%
2012	1,346,307	21.6%	1,138,917	84.6%

Sources: California Department of Education, Enrollment by School, English Learners Data

Although there was a slight decrease, dropping about 15 percent in the last decade, the share of ELLs in a school did not change significantly between 1993 and 2013.

Furthermore, the number of Latino ELLs increased nearly 30 percent in the last two decades, and in California 85 percent of ELLs are Latino students. Given the fact that Latinos comprise 53 percent of the California total enrollment, we can see that a significant proportion of the ELLs in California is made up of Latino students.

Figure 8: English Language Learner's Exposure Rates to Each Race, 1993, 2002, and 2012



Sources: California Department of Education, Enrollment by School, English Learners, and Free and Reduced Meals Program Data

In addition, exposure statistics show that ELLs are one of the most segregated groups in California schools. Nearly two decades ago, ELLs were in schools with one-third of

schoolmates who were whites or Asians, but the number has declined to 23 percent. Instead, they are in contact with more black, Latino, or American Indian students. For instance, ELLs, on average, attend a school with nearly 70 percent Latino students, and they have 75 percent schoolmates who are Latino, black, or American Indian. Moreover, ELL students are in schools with three-fourths low-income students, which is much higher than the average share of poor students in California, which is 58%. Finally, ELLs do not have sufficient contact with non-ELL students, attending a school that are nearly two-fifths ELLs on average. This lack of contact affects their language development as well since many of the other students in these schools are reclassified former ELLs, not fluent native English speakers. These statistics indicate that ELLs have suffered from severe triple segregation by race or ethnicity, by poverty, and by language, and unfortunately, this triple segregation for ELLs has not ameliorated over the past two decades.

Conclusion and Policy Recommendations

There are many causes of segregation and many ways to increase lasting diversity in education and communities. The claims that desegregation has been tried but failed and that it is demographically impossible are incorrect. Full desegregation is impossible but important progress can be made. Apart from court orders in a few cities for a period of time, little was tried, virtually nothing in the vast suburban areas of the state, many of which are now undergoing substantial racial changes.

Desegregation, usually done now through choice, voluntary transfer, and magnets is voluntary and often involves creating access to schools the state and school districts rate much more highly. In San Francisco, for example, where there was a longitudinal multi-year study, the students in the most desegregated schools clearly did better than similar students in schools that were given computers and substantial sums of money to spend as they wished.¹⁵

Desegregation is linked, controlling for other variables, to attendance in high schools of higher quality, to higher high school graduation levels. Students from segregated high schools tend to

¹⁵Consent Decree Monitoring Committee, *Desegregation and educational change in San Francisco*, report to U.S. District Court, San Francisco, 1992.

go to weak community colleges and never transfer or obtain a degree. Diverse schools are better able to attract and hold excellent experienced teachers.

School segregation has multiple causes. Important factors are:

- o Housing segregation and failure to enforce fair housing; expansion of minority populations; district boundaries separating strong from weak schools.
- o Discrimination in designing attendance boundaries and in siting of schools.
- o Lack of transportation to bring poor nonwhite students to stronger, less segregated schools, including many charter and choice schools.
- o Placing subsidized housing tenants in areas of weak segregated schools.
- o Lack of civil rights policies in charter schools.
- o Ending of desegregation plans.

With many causes, there are many areas of possible policy interventions. The basic need is to change the flow of families and students in schools and neighborhoods so that lasting integration becomes more probable and resegregation less likely. The impact of choice mechanisms can be changed with increased information and recruiting, diversity goals, and transportation for those choosing. Transportation can be provided, making choice actually available to the low-income families in the most segregated and unequal communities.

The more than 350 magnet and charter schools, just within the Los Angeles district, could make a difference. Weak magnets and charters could be eliminated and replaced by ones that offer better choices and magnetize diversity. Housing discrimination can be attacked much more vigorously and subsidized housing can be built or rented in diverse rather than intensely segregated neighborhoods with better site selection and marketing. Racial gerrymandering of attendance boundaries and selection mechanisms that disadvantage minorities can be prosecuted.

Community organizers can work with school principals to recruit gentrifiers (young professionals with resources who now rarely use and support neighborhood public schools) to attend, integrate, and improve neighborhood schools. Local officials can work to help integrated communities stabilize rather than resegregate. More dual language immersion programs can be created to integrate across linguistic and race lines. More workplace preschools and schools could be created to bring school and work together in diverse settings. Teachers and administrators can be given new understanding of children's backgrounds and they can be trained in relatively simple techniques that have been shown to improve both race relations and academic outcomes, building positive images of schools and neighborhoods.

The critical thing is to have a positive vision, effectively communicated, with evidence addressing parents' stereotypes and fears. Because segregation in California is so intense and covers such large areas, and because California is becoming more Latino and less white in child population every day, there is no conceivable way that all children could attend successful, diverse, multiracial schools. But, by the same token, there is no reason why California should be at the extreme of segregation and making no effort for better outcomes and passively accepting suburban resegregation.

The goal should be to create the most stable voluntary and educationally powerful integration possible. Segregation of schools and communities has never produced equal opportunity. All children growing up in California need to know how to live and work effectively in a state where there will be a small and declining white minority and most people will be Hispanic. Thus, integrated schools and communities have great value.

Voluntary integration of schools though educationally desirable choice opportunities poses no threat to the white and Asian middle class and can offer significant advantages. Yet administrators and politicians are afraid to mention the issue and critics immediately try to revise fears of earlier conflicts over mandatory transfers of students –“busing” – though the issues are fundamentally different. They involve strong educational choices, fairly available.

Resegregation has been a destructive and costly process for whites who live in changing communities, for middle class minorities who are looking for a more suitable and stable community, and for poor nonwhite families who are hoping to escape ghetto and barrio conditions of the inner city. The cumulative cost of resegregating schools and neighborhoods is very large, but alternative visions and policies are rarely presented. In a state where “sprawl has hit the wall,” people spend large parts of their days commuting back and forth on saturated freeways because they cannot live, work, and find successful diverse schools in the same community. The existing policies have failed. It is time to make plans for a viable, more integrated, future.

